20TH CENTURY BOOKKEEPING & ACCOUNTING

PARTS 1 & 2.

Miss Dorsey
I made correction but she said she
would not sign for it until she saw
me that it was correct
Left school ~~Dec~~ Nov Tuesday 29, 21.

Answer
Penmanship

30 1/2
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30

No 681, 83.

20th Century Bookkeeping

and

Accounting

A TREATISE ON MODERN BOOKKEEPING, ACCOUNTING, AND BUSINESS CUSTOMS, AS ILLUSTRATED IN THE "BUSINESS TRANSACTIONS" WHICH ACCOMPANY THIS TEXT

TENTH EDITION

FOR USE IN ALL SCHOOLS THAT TEACH BOOKKEEPING AND ACCOUNTING

BY JAMES W. BAKER

ASSISTED BY

COMMERCIAL TEACHERS AND PRACTICING ACCOUNTANTS

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PREFACE

The successful business man should know that a profit will result from the transactions in connection with his business before they are completed. To determine this he should have such information as will show the detailed operating cost, the profit from trading or other operations, the net profit for each fiscal period, its source, and the increase or decrease over previous periods.

A report concerning the failure or suspension of a business, accompanied with the statement that the creditors will not know what percentage of their claim may be collected until the experts have audited the books, indicates that the management did not have all the facts available in connection with the business. Such a statement is so common in the newspaper announcement of failures that it suggests a connection between accounting and success.

If these conditions are to be improved, it is necessary to teach the correct principles of accounting and the best practice in applying them. The bookkeeping student of to-day is the bookkeeper or business man of to-morrow. If he has a knowledge of the correct principles, as bookkeeper, he will apply them, or, as manager, he will see that they are applied by the bookkeeper.

The purpose of this text is to present the correct principles of bookkeeping and accounting,—principles advocated and practiced by modern bookkeepers and accountants. The information upon which it is based was obtained from standard authorities on accounting and from consultations with practicing bookkeepers and accountants.

The text is prepared primarily for the student and not for the practicing bookkeeper or accountant. The presentation permits the beginner to master first the simple principles of accounting as applied in a small business. When he understands these, he can then appreciate the more complicated principles of accounting necessary in recording the transactions for a business of extensive operations.

A study of the text would result in only a theoretical knowledge of the subject. Practice is necessary in applying the principles. This practice is provided in the sets that accompany the text. Each set has its outline of accounts based on the nature of the business and the number of transactions in connection therewith.

A correct knowledge of the principles is essential, but efficiency in applying this knowledge is of equal importance. The student who has mastered the principles of bookkeeping and accounting should have also acquired accuracy, neatness and speed. For this reason the working sets require the recording of a number of transactions,—a sufficient number to impress on the student's mind the importance of a correct record and to give him confidence and skill in applying his knowledge of the subject.

That the student may learn to recognize a transaction from the paper that represents it in business, he is required to make his record in the working sets from reproduced business papers. The transactions, moreover, are practical, and identical with those that occur in business. Applying the correct principles and recording practical transactions represented in the same manner as they are in business, gives the student a knowledge of the subject which will make his services desirable to the business man, and valuable to himself.

Not only should the student who has completed a course in bookkeeping and accounting understand the principles of the subject and the best practice in ap-

plying these principles, but he should also have some knowledge of the efficient methods employed in modern business. This knowledge, given in connection with the sets, includes special ruling in all books of original entry, carbon copy and loose leaf records, controlling accounts, and many other time-saving methods made popular by practicing bookkeepers.

Efficiency in office routine means the greatest amount of work with the best results at the least cost. As applied to the work of the bookkeeper, it means the ability to record the greatest number of transactions with correct results in the least possible time. Throughout the text and sets, special attention is given to modern methods in recording transactions and preparing the work of the bookkeeper for the auditor.

The student who has mastered the principles in this text and completed the sets that accompany it, need not hesitate to accept a position as bookkeeper in any office. He can rest assured that the training received will have prepared him to make a correct record in an efficient manner. If the work of his predecessor has not been correctly done, he is prepared to improve the method in use. He can act with the assurance that the work he does will be approved by the accountant who audits his books.

THE PUBLISHERS.

Part One

BOOKKEEPING AND ACCOUNTING TERMS

§ 1. **Bookkeeping** is the systematic recording of the financial facts in regard to a business enterprise. If all the facts are recorded, they will show a complete history of the business, that is, the cash received and paid, property bought and sold, transactions with customers and creditors, expenses necessary in conducting the business, the profit resulting from its conduct, and the net profit or loss. There are two methods in use,—single entry and double entry.

§ 2. **Single Entry** is a method of bookkeeping in which all of the financial facts in regard to the business are not recorded. Usually only a record of cash and of the transactions with customers and creditors is kept. In order to show the financial condition of the business at any particular time, it is necessary to obtain additional information by an inventory or appraisal of the other property owned by the business.

§ 3. **Double Entry** is a method of bookkeeping in which a systematic record is made of all the financial facts in regard to the business. It is based on the principle that each transaction involves an exchange of equivalent values, and the record must show the value of property or services received and of property or services given in return in each transaction.

The explanation of bookkeeping, accounting and accounts as given in the following sections refers to the double entry method.

§ 4. **Auditing** is verifying the results obtained by a bookkeeper, clerk, agent or any other person connected with the business whose duty it is to record transactions. It requires a thorough knowledge of bookkeeping, as it is not possible to verify the correctness of the results unless the one who does the auditing is thoroughly familiar with the manner of obtaining these results.

§ 5. **Accounting** is the science which treats of the proper recording, classification, presentation, and interpretation of the financial facts relating to a business enterprise.

The term accounting is more comprehensive than the term bookkeeping, and may be said to include the latter. Bookkeeping deals primarily with the recording of financial facts, while accounting treats of their classification, presentation and interpretation. The bookkeeping record is the medium through which the accounting results are obtained, while accounting prescribes how this record should be kept. Neither can be studied nor used independently of the other.

§ 6. **A Bookkeeper** is one who has a sufficient knowledge of the principles of bookkeeping and of business routine to correctly record business transactions. His duties may be to record all, or part of the transactions made in connection with the business. Thus in a small business, where only one bookkeeper is necessary, he may keep the books, make the bills and do all the other work required in connection with recording the transactions. Where the business is larger, and a

number of bookkeepers are necessary in the office, one may record the sales, another the purchases, another the cash received and paid, and still others perform other parts of the bookkeeping routine.

§ 7. **An Auditor** is one who verifies the results of the bookkeeper, cashier, clerk, agent or other person who records transactions. An auditor may devote his entire time to auditing for the firm with which he is connected, or he may engage in public practice and make periodical audits for those who wish to employ his services.

§ 8. **An Accountant** is one who is skilled in the theory and practice of accounting. His duty is to classify, interpret and present the financial facts provided by the bookkeeping record so that they will be of the greatest possible use to the management in the conduct of the business. In some cases he may be required to install new records or to correct those in use so that the financial facts may be recorded in a more systematic and intelligible manner. He must have a thorough knowledge of the principles of bookkeeping and accounting and a wide experience in the practical application of them.

§ 9. **A Certified Public Accountant** (C. P. A.). The work of the accountant is confidential, and the one who employs him has very limited means of knowing his ability. In order to avoid impostures by those who are not qualified to do accounting work, many states have passed laws providing for the examination of those who wish to do public accounting work. At least two years' experience in public accounting and a preliminary education equivalent to that of a four years' high school course are usually prerequisites to this examination. A person who has passed this examination is known as a "Certified Public Accountant." The fact that he has passed the examination is evidence to the one who is to employ him that he is qualified to do the required work.

§ 10. **The Object of all Investment** in business is profit—that is, an increase in the value of the property (capital) invested. This profit, or loss if the business has not been conducted at a profit, is ascertained at the end of the business year, usually referred to as a fiscal period (§ 76).

§ 11. **Property** is any object of value that a person, partnership, or corporation may lawfully acquire and hold. The business man regards it as money or anything that can be exchanged for money. Money is the medium of exchange and measure of value, and all property is measured in terms of money.

§ 12. **An Asset** is property belonging to an individual, or to a business conducted by an individual, a partnership, or a corporation. All the property belonging to a business is its assets. *Cash*, money or any property that the bank will accept as money; *merchandise*, salable goods in stock; *notes*, written promises of others; *personal accounts*, verbal and implied promises of customers; and *patent rights*, authority from the U. S. Patent Office, are examples of the assets of a business.

§ 13. **A Liability** is a debt owed by an individual, or by a business conducted by an individual, a partnership, or a corporation. All the debts owed by a business are its liabilities. *Notes*, written promises to pay others; and *personal accounts*, verbal promises to pay debts created, are examples of the liabilities of a business.

§ 14. **A Profit** is an increase in the value of property invested at the beginning of the business or purchased afterwards. In a mercantile or trading business, the profit is brought about by buying merchandise at one price and selling it at a greater price. Profit derived from conducting a business is sometimes referred to as income.

§ **15. A Loss** is a decrease in the value of the property invested at the beginning of the business or purchased afterwards; it includes the destruction, or theft of property, also the exchange of property for services necessary in operating the business. The cost of conducting a business is the principal loss, but is usually referred to as the operating cost. Inability to collect an account due from a customer is an example of a loss as the term is usually applied in connection with a business.

§ **16. Capital** is the property invested at the beginning of a business enterprise, also the net value of the assets, that is, the total assets less the liabilities at any time during the conduct of the business.

§ **17. The Balance Sheet** is a written or printed statement of the assets, liabilities and capital of a business, arranged in proper form as in Illustration No. 24 on page 63. It is through the Balance Sheet that the capital at the close of the fiscal period is ascertained. (§ 16.)

§ **18. The Profit and Loss Statement** is a written or printed statement of the profits, losses, and net profit or loss of a business, arranged in proper form as in Illustration No. 25 on page 64. It is through the Profit and Loss statement that the profit or loss for the fiscal period is ascertained. (§ 10.)

§ **19. A Business Transaction** is an exchange of values by which the financial condition of the business is affected. The sale of merchandise for cash or on account, the collecting of an account from a customer, the payment of a note at the bank, the payment of rent, and the purchase of merchandise for cash or on account, are examples of business transactions.

Business transactions may be classified into four distinct groups as follows: cash, credit, payment of a debt, and service.

¶ 1. *Cash Transactions.* In this class, cash is exchanged for property, that is, cash is received for merchandise or other property sold, or it is paid for merchandise or other property purchased. When the cash is received, it is usually referred to as a "cash sale;" when paid, a "cash purchase."

¶ 2. *Credit Transactions.* In this class, merchandise or some other property is purchased or sold on account, that is, credit is allowed to or by the business. When merchandise is purchased by the business, it is usually referred to as a "credit purchase;" when sold, a "credit sale."

¶ 3. *Payment of a Debt.* In this class, those described in ¶ 2 are cancelled by fulfilling the contract. When the debt is paid by the business, it is usually referred to as "paid in full" or "paid to apply on account;" when paid to the business, as "received in full of account," or "received to apply on account."

¶ 4. *Service Transactions.* In this class, cash or some other property is given or received in payment of services rendered to or by the business. When the service is rendered to the business, the transaction is referred to as "expense" or "operating cost;" when rendered by the business, as "income" or "revenue."

§ **20. An Account** is a record of all the transactions with any one person, any one kind of property, service, or revenue, collected under a specific heading. This heading is designated as the name of the account. The Cash account in Illustration No. 1 on page 12 shows a record of all the transactions with cash for the month of January.

The *name* of an account should indicate the nature of the property, service, or revenue which it represents. An account is *opened* by writing the name and the amount indicated in the transaction that makes it necessary. An account is *closed* by ruling (*a*) when the two sides are made equal by a transaction (Illustration No. 2, page 15), or (*b*) when it is desired to close it for a special purpose (Illustration No. 1, page 12).

§ 21. Debits and Credits. Transactions affect accounts in two ways, one opposite to the other. For this reason each account is divided into two sides,—the left-hand side termed the debit, and the right-hand side termed the credit. The ruling for each side is usually the same. In Illustrations Nos. 1-7 the debit side of each account is at the left of the three lines in the center, and the credit side is at the right of these lines. The terms debits and credits apply to the amounts as well as to the two sides of the account. Amounts recorded on the debit side are referred to as debits, and those recorded on the credit side, as credits.

§ 22. The Balance of an Account is the difference between the two sides and shows its value except as explained in §23. The difference between the total receipts of cash as shown by the debit side of the Cash account and the total payments as shown by the credit side of this account, is the cash balance or amount of money on hand. The difference between the total charges to a customer as shown by the debit side of his account and the total credits as shown by the credit side, is the balance he owes. The difference between the total expenses as shown by the debit side of the Expense account, and any deductions as shown by the credit side, is the amount of the expense of the business. The balance of an account should show an *asset*, a *liability*, a *profit*, or a *loss*.

§ 23. Valuation Accounts. If the balance of a property account does not show the present value of the property, it is necessary to indicate the decrease in value by a special account termed a valuation (reserve) account. Such accounts are usually necessary in connection with accounts that show the value of property purchased for use in the business, because this property will of necessity decrease on account of its use. A typewriter purchased for $100.00 January 1, 1919, and used during the year, would not be worth $100.00 December 31, 1919. Unless this decrease is shown by a valuation account, the Balance Sheet prepared at the end of the year will not be correct. Valuation accounts also apply to reserves set up to take care of loss through failure to collect notes and accounts due the business.

§ 24. Classification of Accounts. Accounts are divided into two general classes, real accounts and nominal accounts.

¶ 1. *Real Accounts* represent assets or liabilities and are personal or impersonal. Personal real accounts are accounts with individuals, partnerships or corporations; impersonal real accounts are accounts with Cash, Land, Buildings, Notes Receivable, Notes Payable and other property of this nature.

¶ 2. *Nominal Accounts* represent an income, an operating cost, a profit, or a loss. These are accounts with Sales, Expense, Interest, Profit on Real Estate, and other accounts of this nature.

§ 25. Asset Accounts. The object of these accounts is to show the value of property belonging to the business. All of the asset accounts show the total value of the property or assets of the business. Since property is purchased for two different purposes, there are two kinds of asset accounts; one shows the value of property which is acquired through the purchase and sale of commodities in which the business deals; the other, the value of property bought to be used in the business, and not for sale. The former is termed "Current or Active Assets," and includes such accounts as Cash, Merchandise Inventory, Accounts Receivable, etc.; the latter is termed "Fixed Assets" and includes such accounts as Furniture and Fixtures, Land, Buildings, etc.

§ 26. Liability Accounts. The object of these accounts is to show the obligations owed by the business. There are two classes of indebtedness: verbal promises (accounts payable), and written promises (notes payable). Liability accounts, like asset accounts, are divided into two classes: Current and Fixed The former includes such accounts as Accounts Payable and Notes Payable; the latter includes such accounts as Mortgages Payable and Bonds Payable.

§ 27. Capital Accounts. The object of these accounts is to show the investment at the beginning of the business, subsequent investments and accumulated profits, or losses. The investment may be made by one person, two or more persons acting under a partnership agreement, or three or more persons associated together as a corporation. The investment account in an individual or partnership business is given the name of the individual owner or partner, and the word "Capital" is written after the name to indicate that it is the investment account. The investment in a corporation is shown by the Capital Stock account, and the Surplus account.

§ 28. Income or Revenue Accounts. The object of these accounts is to show the profit derived from the regular operations of the business. These are usually represented by the following: Purchases, Inventory and Sales (usually referred to as trading accounts) in a mercantile business, Loans and Discounts in a banking business, Circulation in a newspaper business, Toll Service in a telephone or telegraph business, and Advertising in a business engaged in selling advertising service.

§ 29. Operating Accounts. The object of these accounts is to show the operating cost or "Expense" of conducting the business. The expenses of the business may be represented by one Expense account or divided into two general classes: General Administrative Expense and Selling Expense. The *general administrative expense* refers to the amounts paid for conducting the business, such as rent, bookkeepers' and stenographers' salaries, officers' salaries, heat, light, and similar items. The *selling expense* refers to amounts paid for securing sales.

§ 30. Special Profit or Income Accounts. The object of these accounts is to show the special income that is not derived from the regular operations of the business. These are represented by such accounts as Interest, Commission, Profit on Real Estate, and Dividend.

§ 31. Special Loss Accounts. The object of these accounts is to show special losses that are not due to the regular operations of the business. They are represented by such accounts as Loss on Stolen Typewriter, and Interest Paid on Borrowed Capital.

QUESTIONS.

1. Define bookkeeping and state its purpose. (§ 1.)
2. Define the single entry method. (§ 2.) Double entry method. (§ 3.)
3. Define auditing. (§ 4.) Accounting. (§ 5.)
4. State the duties of the bookkeeper; the auditor; the accountant. (§§ 6-8.)
5. Who is a certified public accountant? (§ 9.)
6. What is the object of investment? (§ 10.)
7. Define property. (§ 11.)
8. What is an asset? (§ 12.) A liability? (§ 13.)
9. What is a profit? (§ 14.) A loss? (§ 15.)
10. Define Capital. (§ 16.)
11. What is the Balance Sheet? (§ 17.)
12. What is the Profit and Loss statement? (§ 18.)
13. Define a business transaction. (§ 19.)
14. Define an account. How is it named? Opened? Closed? (§ 20.)
15. What is meant by debit and credit? (§ 21.)
16. What is the "Balance" of an account? What does it show? (§ 22.)
17. Give the classification of accounts and define each class. (§ 24, ¶¶ 1 and 2.)
18. What are asset accounts? (§ 25.) Liability accounts? (§26.)
19. What is the object of the Capital account? (§ 27.)
20. What are income accounts? (§ 28.) Operating accounts? (§ 29.)

OUTLINE OF ACCOUNTS USED IN THE INTRODUCTORY SET.

§ 32. **The Outline** below includes all accounts made necessary by recording the transactions for January, February and March, the Introductory Set. These are discussed as they are introduced. This outline is based on the classificatior given in §§ 24-31.

Current Assets	Cash. Inventory of Merchandise. Notes Receivable. Accounts Receivable.
Fixed Assets	Furniture and Fixtures. Land. Buildings.
Current Liabilities	Notes Payable. Accounts Payable.
Capital	W. H. Goodwin (Sole Proprietor.)
Trading (Income)	Purchases. Sales. Inventory of Merchandise.
Operating	Expense. Building Expense and Revenue.
Special Profit and Loss.	Interest. Profit on Real Estate.

ACCOUNTS.

§ 33. **Introduction.** The discussion on pages 11–28 relates to accounts with cash, persons, capital, merchandise, and expense—those accounts required in connection with recording the transactions in Exercises Nos. 20–26 beginning on page 32, and in the first month of the Introductory Set.

Each account is illustrated that the student may visualize the discussion. Exercises are provided that the student may apply his knowledge of mathematics to accounts and better understand the illustrations.

The discussion is arranged by section (§) and paragraph (¶) numbers for convenience in reference. The various debits and credits discussed in connection with each account are not to be regarded as rules to be memorized. Reference is made to these when the information is necessary; constant reference will give the student a thorough understanding of these debits and credits.

CASH ACCOUNT.

§ 34. **The Object of this Account** is to show a record of all transactions in which cash is received and paid, and the balance on hand. Cash is money or any commercial paper that the banks will accept at its face value as money. The latter includes personal checks, bank drafts, cashier's checks, postoffice and express money orders, and traveler's checks.

Debit the Cash Account:

¶ 1. For cash invested at the beginning of the business.

¶ 2. For cash received.

Credit the Cash Account:

¶ 3. For cash paid with currency or by check.

¶ 4. *The Balance of this Account* shows the amount of cash on hand; this may be in the safe, in the bank, or a part in each place. It is shown as a current asset on the Balance Sheet.

¶ 5. *To Close the Cash Account.* This account is usually closed at the end of each month and the balance brought down on the debit side on the same page, or transferred to a new page. When closed, the balance together with the date of closing and the word "Balance" are entered on the credit side with red ink*, the account ruled with single and double red lines and footed with black ink as in Illustration No. 1. The balance is carried down on the debit side under date of the next business day as in Illustration No. 1, or entered on the debit side of the Cash account on a new page.

*THE USE OF RED INK in bookkeeping is optional with the bookkeeper. When preferred, it is used for all ruling, and for the facts concerning an amount which is entered to close an account. Unless otherwise instructed by the teacher the student will use red ink for all work of this kind.

Correct ruling adds much to the appearance of a set of books. The best effect is obtained when the single line extends under the dollars and cents columns only, and the double lines across all vertical lines except the explanation column, which is the wide column between the date and amount.

The best results in ruling are obtained by laying the rule with the brass edge up and toward the front. The rule is held in position with the left hand and the line drawn by moving the pen from left to right, the pen gliding across the brass edge of the rule. By changing the angle of the pen, double lines may be ruled without moving the rule.

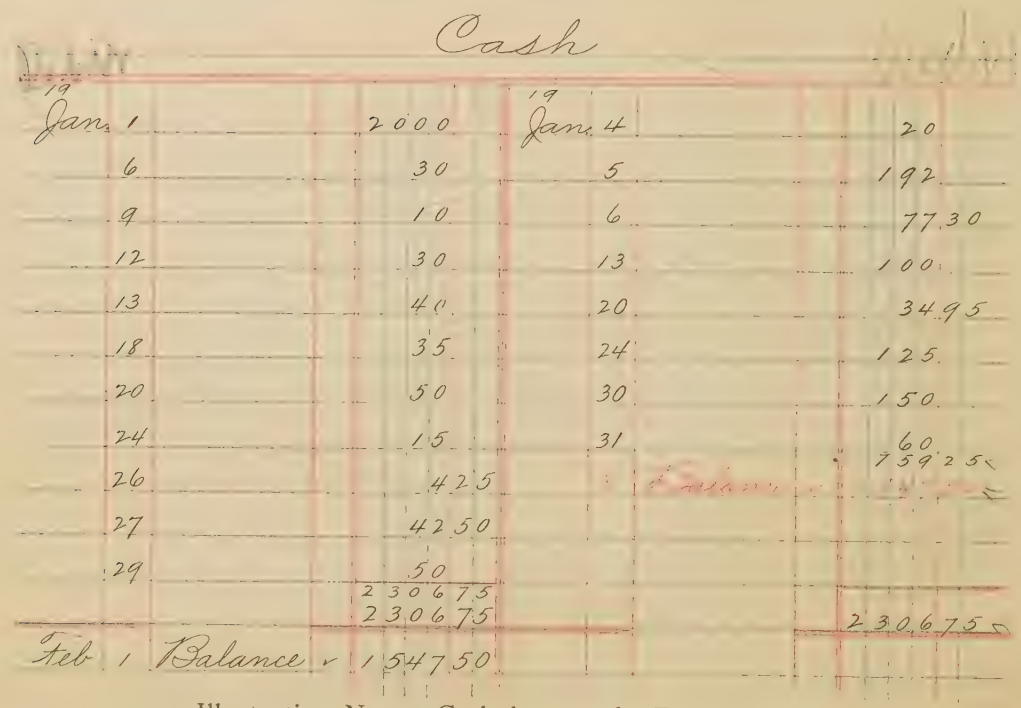


Illustration No. 1, Cash Account for Exercise No. 1.

Exercises in the Cash Account. Prepare a Cash account for each of the three exercises. Use ledger paper, that is, paper ruled similar to Illustration No. 1. The result obtained from completing Exercise No. 1 is the same as Illustration No. 1. The various entries illustrate the special debits and credits described in § 34, ¶¶ 1, 2 and 3. References are given only when the student may be in doubt as to the reason for the debit or credit.

Exercise No. 1, Cash Account.

Jan. 1. W. H. Goodwin invested $2,000.00 in cash (¶ 1).
4. Paid $20.00 for city license (¶ 3).
5. Paid City Milling Co. $192.00 for flour (¶ 3).
6. Received for cash sales, $30.00 (¶ 2); paid Borches & Co. $77.30, in full (¶ 3).
9. Received $10.00 from A. R. Jennings (¶ 2).
12. Received $30.00 from Central Hotel.
13. Received for cash sales, $40.00; paid Kaiser Bros. $100.00 (¶ 3).
18. Received $35.00 from M. A. Johnson (¶ 2).
20. Paid Kaiser Bros. $34.95 (¶ 3); received for cash sales, $50.00 (¶ 2).
24. Received $15.00 from Central Hotel (¶ 2); paid Hazen & Lotspeich $125.00 (¶ 3).
26. Received $4.25 from A. R. Jennings.
27. Received for cash sales, $42.50.
29. Received $50.00 from C. L. Loyd.
30. Paid Borches & Co. $150.00 (¶ 3).
31. Paid sundry expenses, $60.00.

Enter the cash balance ($1,547.50) on the credit side, rule and foot the account, and bring the balance down on the debit side as in Illustration No. 1.

Exercise No. 2, Cash Account.

If more than one exercise is written on a page, leave three blank lines between each. Be sure to indicate the number of each exercise before presenting for approval.

Feb. 1. C. H. Hobson invested $2,500.00 in cash (¶ 1); paid $1,186.45 for merchandise (¶ 3).
2. Paid rent, $40.00; paid salaries, $30.00; received from Oxford Hotel, $100.00 (¶ 2).
3. Paid $50.00 for scales (¶ 3); paid $350.00 for team of horses and wagon.
5. Received for cash sales, $327.56 (¶ 2).
6. Gave the Hall Safe Company check for $150.00 for safe (¶ 3).
7. Received for cash sales, $175.46; paid driver $18.00.
8. Paid telephone rent, $10.00; received from Oxford Hotel, $150.00.
9. Received for cash sales, $95.00; paid $25.00 for office desk.
10. Paid $237.50 for merchandise; received for cash sales, $156.75; received from Chas. C. Lundy, $40.00.
12. Gave Jones Bros. a check in payment for merchandise, $62.85; received from Robert A. Dow, $25.00.
13. Received for cash sales, $297.36; paid sundry expenses, $38.50. Balance on hand, $1,668.83.

Exercise No. 3, Cash Account.

Mar. 1. A. L. Graham invested $3,500.00 in cash (¶ 1).
2. Paid by check for team and wagon, $300.00 (¶ 3).
3. Paid by check for office and store fixtures, $650.00.
5. Received for cash sales, $304.87; paid cash for merchandise, $1,500.00.
6. Received from Caleb Barber, $50.00; paid sundry expenses, $127.00.
7. Paid $150.00 for safe; received from O. H. Arnold, $64.00.
8. Cash purchase, $330.75 (¶ 3); received for cash sales, $204.18.
9. Received from H. F. Ritter, $15.00; cash purchase, $28.65.
10. Received for cash sales, $264.85; received from O. B. Donaldson, $50.00.
12. Received for cash sales, $15.79; paid Belknap Hardware Co. $629.87.
14. Paid sundry expenses, $72.50; paid C. R. Crawford, $75.00.
15. Received from H. F. Ritter, $20.00; borrowed $1,000.00 from the bank.
16. Paid by check Simmons Hardware Co., $526.48 (¶ 3); gave McClung Hardware Co. a check for $200.00.
17. Paid Green Construction Co., $31.65; cash purchase, $304.05.
19. Received for cash sales, $421.65; paid sundry expenses, $54.25. Balance on hand, $930.14.

PERSONAL ACCOUNTS.

§ 35. **Personal Accounts** show the result of transactions with individuals, partnerships, or corporations. They are made necessary by the purchase and sale of property on account. They are divided into two classes: one (accounts with customers) shows the result of transactions with the persons to whom property has been sold on account, and the other (accounts with creditors) shows the result of transactions with those from whom property has been purchased on account.

ACCOUNTS WITH CUSTOMERS.

§ 36. **The Object of these Accounts** is to show the balance due from each customer to whom the business sells property on account. A separate account is kept with each person, partnership, or corporation.

Debit Customers:

¶ 1. For amounts due from customers at the beginning of the business.

¶ 2. For the value of property sold them on account.

¶ 3. For freight paid by us unless we agreed to deliver the property at the customer's freight station.

Credit Customers:

¶ 4. *For cash they pay us on account.

¶ 5. For notes they give us signed by them or signed by others and transferred to us.

¶ 6. For time drafts they accept, or sight drafts paid by them, which are drawn by us to apply on account.

¶ 7. For allowances made by us for *shortages, overcharges, damaged goods or goods returned.* (These items are represented by credit bills sent by us.)

¶ 8. For freight charges paid by them, when we agreed to deliver the goods at their freight station.

¶ 9. For discount deducted as indicated by the terms on the bill.

¶ 10. For special deductions made in settlement when the full amount can not be collected.

¶ 11. *The Balance of a Customer's Account* shows the amount he owes. It is shown as a current asset on the Balance Sheet.

¶ 12. *To Close a Customer's Account.* A customer's account is not closed until it is paid in full, unless it is desired to rule the account and transfer the balance to a new page. When the account balances by payment, it is ruled at the point where it balances with a single red line under the dollars and cents columns on each side as in Illustration No. 2.

If the account is made to balance, the balance together with the date and the word "Balance" is entered on the credit side, the account ruled with single and double red lines and footed with black ink. The balance is entered with black ink on the debit side of the account on the new page. If desired, the total debits and total credits may be forwarded to the new page, in which case "Carried Forward" is entered in the explanation column opposite the total on each side.

*NOTE. A debtor has the right, by law, to indicate on what item his payment shall be applied. Thus if he owes several amounts and wishes the payment to be applied to any one particular amount, and indicates this, the credit must be applied on that amount. In cases of this kind the bookkeeper should indicate the amount on which the credit is allowed by placing a letter at the left of the amount of the item on the debit side, and place the same letter to the left of each payment on the credit side. It is best to begin with "a" and continue with as many letters as may be required for payments on different charges. Each payment on the first charge is indicated by the letter "a;" each payment on the second charge is indicated by the letter "b" on each side. The letters are not necessary when an item is paid in full by one payment, and the account is ruled. The student will understand this better by referring to Exercise No. 4 and Illustration No. 2.

The same method is used to indicate payments made to a creditor, or partial payments on notes as explained in §109, ¶4.

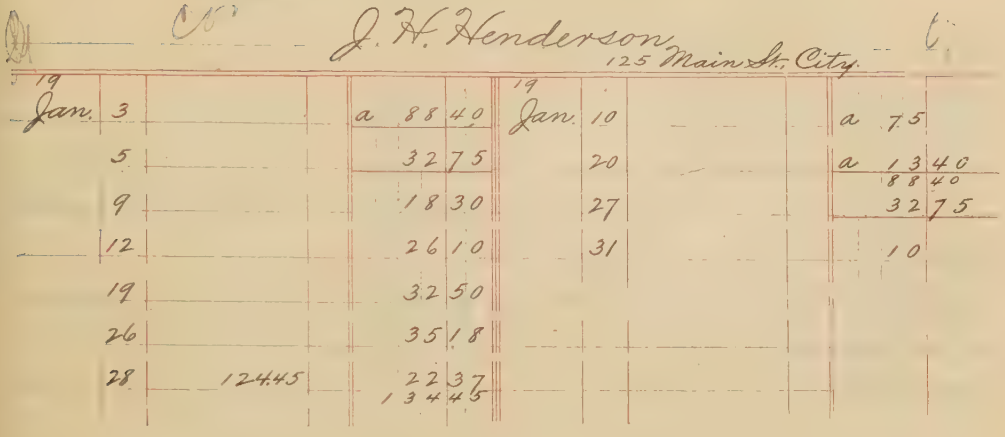


Illustration No. 2, Account with J. H. Henderson, Exercise No. 4.

Exercises in Customers' Accounts. Prepare on ledger paper an account for each of these three exercises. Exercise No. 4 is the same as Illustration No. 2. The work presented to the teacher should show each debit and credit entry, the total of the debit side below the last ruling, the total of the credit side below the last ruling, and the balance. References are given to § 36 when the student may be in doubt as to the reason for the debit or credit.

Exercise No. 4, J. H. Henderson, 125 Main St., City

Jan. 3. Sold J. H. Henderson merchandise on account, $88.40 (¶ 2).
5. Sold on account, $32.75 (¶ 2).
9. Sold on account, $18.30.
10. Received cash on bill charged on the 3d, $75.00 (¶ 4).
12. Sold on account, $26.10 (¶ 2).
19. Sold on account, $32.50.
20. Received $13.40 in full for balance of bill charged on the 3d.

Rule as in Illustration No. 2.

26. Sold on account, $35.18.
27. Received cash in full of bill charged on the 5th, $32.75.
28. Sold on account, $22.37.
31. Received on account, $10.00 (¶ 4).

Exercise No. 5, Walter Rogers, San Francisco.

If more than one exercise is written on a page, leave three blank lines between each. Be sure to indicate the number of each exercise before presenting for approval.

Feb. 2. Balance due from Walter Rogers, $62.75 (¶ 1).
9. Sold on account, $116.95 (¶ 2).
12. Received cash on account of balance due, $25.25 (¶ 4).
14. Sold on account, $22.65.
16. Allowed a credit of $2.00 for goods damaged in bill charged on the 9th.
18. Received cash, $37.50, in full for balance due February 2d.

While this transaction pays all of the old balance, yet the account can not be ruled because there is a credit on another bill.

(Concluded on page 16.)

(*Exercise No. 5—Continued from page 15.*)

Feb. 19. Sold on account, $94.36.
20. Sold on account, $16.95.
24. Received check for $114.95, in payment of balance due on bill charged on the 9th (¶ 4).

Foot the first two items on the debit side, and the four items on the credit side, and enter the totals in small pencil figures. You will observe that these totals are the same. Rule the account by drawing a single red line beneath the first two items on the debit side, and the four items on the credit side.

25. Sold on account, $39.62.
26. Received cash in full for bill charged on the 14th, $22.65.
27. Received cash to apply on bill charged the 19th, $35.00 (¶4); allowed credit for $4.65, freight charges on bill charged the 19th (¶8); sold on account, $69.27.
28. Received check to pay bill charged on the 20th, $16.95; received $30.00 to apply on bill charged on the 19th.

Exercise No. 6, Hammond Bros., Denver.

Mar. 2. Sold Hammond Bros., on ten days' time, $261.45.
5. Sold on ten days' time, $86.45.
9. Sold on thirty days' time with the privilege of deducting a discount of 3 per cent if paid within ten days, $117.26.

Indicate terms by writing in the explanation column, "3/10, n/30."

10. Allowed a credit of $14.60 for goods returned from those purchased on the 5th (¶ 7).

Indicate the credit and the charge by the letter "a."

14. Received 30-day note for $261.45, in payment of bill charged on the 2d (¶ 5).

The account can not be ruled, even though one bill is paid in full, on account of the credit for returned goods.

17. They accepted our three-day draft for balance due on bill charged on the 5th, $71.85 (¶ 6).

Foot the first two amounts on the debit side, and the three amounts on the credit side, and place the totals in small pencil figures just beneath the blue line. You will note that these totals are the same. Draw a single red line on each side to indicate that the account balances at this point.

18. Sold on thirty days' time, $116.95.
19. Received check for $113.74 in payment for bill charged the 9th, less 3 per cent discount, $3.52 (¶¶ 4 and 9).

Enter the check and discount separately.

23. Sold on ten days' time, $58.42.
24. Allowed a credit for freight on bill charged on the 23d, $5.16 (¶ 8).
25. They transferred W. H. Smith's note for $25.00 to apply on account (¶ 5).
26. Paid $9.65 freight bill for goods sold on the 18th. This was prepaid according to agreement, and is to be charged to their account (¶ 3).
27. Received 20-day note for $126.60 in full for bill of the 18th and the prepaid freight charged on the 26th ($116.95 + $9.65) (¶ 5).
28. Sold on account, $123.00.
30. Sold on thirty days' time, $130.18.

ACCOUNTS WITH CREDITORS.

§ 37. The Object of these Accounts is to show the balance due each creditor from whom property is purchased on account. A separate account is kept with each person, partnership, or corporation from whom credit is received.

Debit Creditors:

¶ 1. For cash paid them to apply on account.

¶ 2. For notes given them to apply on account.

¶ 3. For (a) sight drafts drawn by them and paid by us, and (b) time drafts drawn by them and accepted by us.

¶ 4. For notes of others transferred to them by our endorsement, on account.

¶ 5. For allowances made by them on account of *damaged goods, shortages, overcharges and returned goods.* (These are usually represented by credit bills sent by them.)

¶ 6. For discounts deducted from invoices as indicated by the terms.

¶ 7. For freight *paid by us* on goods they contract to *deliver.*

¶ 8. For special deductions in settlements when we are insolvent.

Credit Creditors:

¶ 9. For amounts due them at the beginning of the business.

¶ 10. For the value of property purchased from them on account.

¶ 11. For freight paid by them and charged to us.

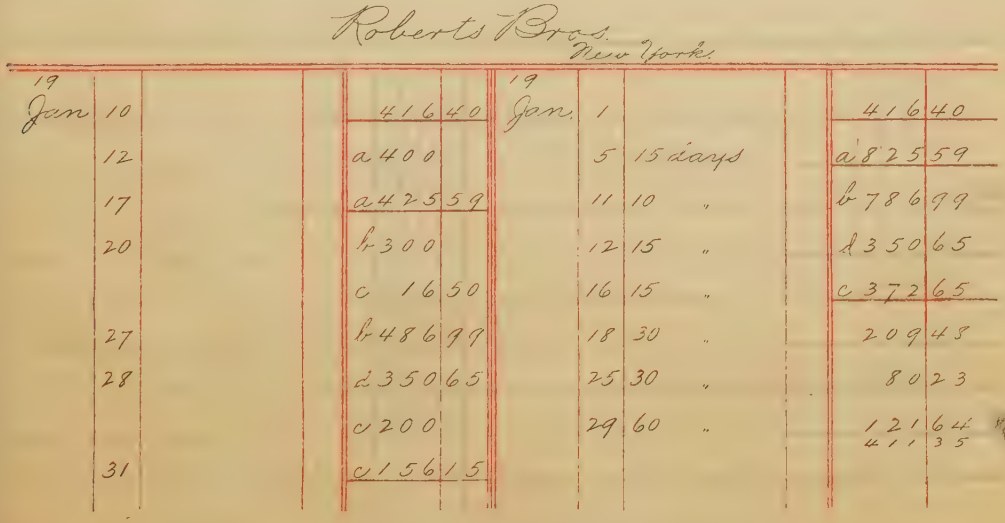


Illustration No. 3, Account with Roberts Bros., Exercise No. 7.

¶ 12. *The Balance of a Creditor's Account* shows the amount owed to him. It is shown as a current liability on the Balance Sheet.

¶ 13. *To Close a Creditor's Account.* A creditor's account is not closed until it is paid in full unless it is desired to rule the account and transfer the balance to a new page. When the account balances by payment, it is ruled at the point where it balances with a single red line under the dollars and cents columns on each side as in Illustration No. 3.

If the account is made to balance, the balance, together with the date and the word "Balance," is entered on the debit side, the account ruled with single and double red lines and footed with black ink. The balance is entered with black ink on the credit side of the account on the new page. If desired, the total debits and total credits may be forwarded to the new page, in which case "Carried Forward" is entered in the explanation column opposite the total on each side.

Partial payments are indicated as explained in the *note* under § 36.

Exercises in Creditors' Accounts. Prepare on ledger paper an account for each of these three exercises. Exercise No. 7 is the same as Illustration No. 3. The work presented to the teacher should show each debit and credit entry, the total of the debit side below the last ruling, the total of the credit side below the last ruling, and the balance. References are to § 37, these being given only when the student may be in doubt as to the reason for the debit or credit.

Exercise No. 7, Roberts Bros., New York.

Jan. 1. Bought from Roberts Bros., $416.40 (¶ 10).
5. Bought on fifteen days' time, $825.59.
10. Paid invoice of the 1st by check, $416.40. (Rule the account by drawing a single red line just beneath the amount on each side of the account. See Illustration No. 3.)
11. Bought on ten days' time, $786.99.
12. Paid $400.00 on invoice purchased the 5th (¶ 1); bought on fifteen days' time, $350.65.
16. Bought on fifteen days' time, $372.65.
17. Gave them check for $425.59, balance due on invoice received the 5th (¶ 1). (Rule the account as in Illustration No. 3.)
18. Bought on thirty days' time, $209.48.
20. Paid $300.00 on invoice purchased the 11th; received credit memorandum for $16.50, for damaged goods on invoice of the 16th (¶ 5).
25. Bought on thirty days' time, $80.23.
27. Gave them check for balance due on invoice of the 11th, $486.99 (¶ 1).
28. Gave them check to pay invoice of the 12th, $350.65; paid $200.00 on invoice purchased on the 16th.
29. Bought on sixty days' time, $121.64.
31. Gave them check in full for balance due on invoice of the 16th.

Exercise No. 8, Mays & Hickman, Chicago.

Feb. 1. Bought of Mays & Hickman on account, merchandise per invoice of this date, $316.92.
3. Bought on thirty days' time, $217.36.
6. Paid cash on invoice of the 1st, $200.00 (¶ 1).
7. Received credit bill for goods returned from invoice of the 3d, $32.65 (¶ 5).
9. Paid balance of invoice of the 1st, $116.92.
10. Bought on thirty days' time, with the privilege of 3 per cent discount for payment within ten days, $399.67.

Indicate the terms in the explanation column by writing 3/10, n/30.

(*Concluded on page 19.*)

(*Exercise No. 8—Continued from page 18.*)

Feb. 12. Gave them check for balance due on invoice of the 3d, $184.71 (¶ 1).

Foot the four items on the debit side, and the first two on the credit side. The totals should be equal. Rule as previously instructed.

15. Purchased on account, $409.16.
16. Paid freight on invoice of the 15th and charged to their account as per agreement, $26.37.
19. Paid $150.00 on the invoice purchased the 15th.
20. Purchased on thirty days' time, with the privilege of 3 per cent discount for cash in ten days, $527.62.
22. Paid invoice of the 10th, less discount; the amount of the check is $387.68, discount, $11.99 (¶¶ 1 and 6).

Enter the two amounts, and in the explanation column, on the same line as the amount of the check, write "Check;" and on the line with the discount, "Discount."

26. Purchased on account, $234.81.
27. Gave check to pay balance due on invoice purchased the 15th, $232.79.

The five items on the debit side below the ruling should balance the first two items below the ruled line on the credit side. You will note that invoice purchased on the 15th was paid by freight, $26.37, cash, $150.00, and check, $232.79. The invoice of the 10th was paid by check and discount.

28. Paid invoice of the 20th by check, $511.79 and discount, $15.83; bought on account, $176.29.

Exercise No. 9, J. B. Jones & Co., St. Louis.

Mar. 1. Purchased of J. B. Jones & Co., on ten days' time, merchandise per invoice of this date, $116.92.

2. Purchased on sixty days' time, with the privilege of 3 per cent for cash in ten days, $186.25.
3. Paid freight on invoice received the 1st and charged to their account, per agreement, $9.10 (¶ 7).
5. Bought on thirty days' time, $209.11.
6. Received credit memorandum for goods returned from invoice of the 2d, $28.65 (¶ 5).
9. Accepted their ten-day draft for balance due on invoice purchased the 1st, $107.82 (¶ 3).
10. Bought on ten days' time, $436.50.
12. Paid invoice of the 2d, less 3 per cent; amount of check, $152.87, discount, $4.73 (¶¶ 1 and 6).

The discount is calculated on the amount of the invoice less the goods returned, as it would not be right to take discount on the value of the latter.

15. Transferred to them J. B. Jones' note for $100.00 to apply on invoice of the 5th.
16. Bought on thirty days' time, $227.65.
17. Accepted their three-day draft in payment of invoice purchased on the 10th.
19. Bought on account, $427.62.
20. Gave them our note due in thirty days for $109.11, balance due on invoice of the 5th (¶ 2).
21. Bought on sixty days' time, with the privilege of 3 per cent discount for cash in ten days, $627.42.
22. Paid freight $52.65 on invoice of the 21st, and charged to their account, per agreement; bought on thirty days' time, $418.26.
23. Received credit memorandum for $106.42, goods returned from invoice of the 22d.

(*Concluded on page 20.*)

(*Exercise No. 9—Continued from page 19.*)

Mar. 24. Gave them check for $127.62, and thirty-day note for $300.00, to pay invoice purchased on the 19th.

26. Bought on thirty days' time, $207.30.

27. Accepted twenty-day draft for $311.84 for balance due on invoice received the 22d (¶ 3); paid invoice of the 21st, less 3 per cent discount; amount of check, $555.95, discount, $18.82 (¶¶ 1 and 6).

The discount is calculated on the full amount of the bill, because the charge is for freight paid by us which should have been paid by them.

30. Bought on sixty days' time, with the privilege of 3 per cent if paid in thirty days, $416.25.

CAPITAL ACCOUNT.

§ 38. **The Object of this Account** is to show the net capital of the business, that is, a record of the transactions with the proprietor, which includes the money invested at the beginning of the business, subsequent investments, withdrawals from the investment, and the profit made or loss sustained by conducting the business. When the business is owned by a sole proprietor, the investment account is indicated by the word "Capital" after his name. The debits and credits given below refer to the investment by a sole proprietor.

Debit the Capital Account:

¶ 1. For any debts owed at the beginning of the business if they are assumed by the business.

¶ 2. For amounts withdrawn from the capital invested. This does not include amounts withdrawn for services rendered the business.

¶ 3. For the debit excess of the Personal account, if the balance is closed into the Capital account.

¶ 4. For the net loss as shown by the debit balance of the Profit and Loss account when that account is closed at the end of the fiscal period.

Credit the Capital Account:

¶ 5. For the value of all property invested at the beginning of the business.

¶ 6. For subsequent investments.

¶ 7. For the credit excess of the Personal account, if the balance is closed into the Capital account.

¶ 8. For the net profit as shown by the credit balance of the Profit and Loss account when that account is closed at the end of the fiscal period.

¶ 9. *The Balance of the Capital Account* shows the net amount invested, and at the close of the fiscal period, after the Profit and Loss account is closed, it shows the Present Capital. The Present Capital is shown on the Balance Sheet as the difference between the assets and liabilities.

¶ 10. *To Close the Capital Account.* This account is not closed until it has been credited with the profit or debited with the loss for the period. After this entry has been made, the date and the balance of the account together with the words "Present Capital" are entered on the debit side with red ink, the account ruled with single and double red lines and footed with black ink. The present capital is carried down on the credit side under date of the beginning of the next fiscal period, with black ink. See Illustration No. 4.

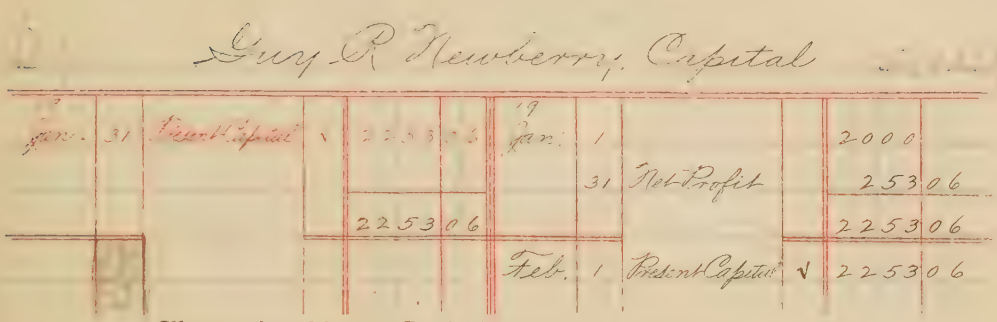

Guy R Newberry, Capital
Jan. 31 Present Capital √ 2253 06
19 Jan. 1 2000
31 Net Profit 253 06
2253 06 2253 06
Feb. 1 Present Capital √ 2253 06

Illustration No. 4, Capital Account for Exercise No. 10.

Exercises in the Capital Account. Prepare on ledger paper an account for each of the three exercises. Exercise No. 10 is the same as Illustration No. 4. When the work is presented to the teacher, each account should be closed, and the Present Capital carried down on the credit side as in the illustration. References are to § 38.

Exercise No. 10, Guy R. Newberry, Capital.

Jan. 1. Guy R. Newberry invested $2,000.00 in the retail grocery business (¶ 5).
31. The Profit and Loss statement was made, and the net profit, $253.06, was credited to his account when the Profit and Loss account was closed (¶ 8). See Illustrations Nos. 4 and 7.

Always verify correctness of balance brought down by placing check marks in the folio columns, as in the illustration.

Exercise No. 11, Robert Whittle, Capital.

Feb. 1. Robert Whittle invested $2,000.00 in the retail shoe business.
10. Withdrew $500.00 (¶ 2).

Enter this amount on the debit side on the first blue line below the double red lines.

16. Withdrew $1,000.00.

Enter on the debit side on the line below the entry for Feb. 10.

25. Withdrew $100.00.

Enter on the debit side on the line below the entry for Feb. 16.

27. Invested $500.00 (¶ 6).
28. His account was charged with $63.50, the balance of his Personal account (¶ 3); the Profit and Loss statement was made, and his account was credited with the net profit, $416.25, at the time the Profit and Loss account was closed (¶ 8).

Enter the Present Capital with red ink on the debit side on the line below the last entry.

Always verify correctness of balance brought down by placing check marks in the folio columns as in the illustration.

Exercise No. 12, W. W. Woodruff, Capital.

Mar. 1. W. W. Woodruff began the retail drug business with the following assets and liabilities: Cash, $4,000.00 (¶ 5); Real Estate valued at $2,500.00 (¶ 5). He owed A. L. Jones $216.50 (¶ 1), and a note of $1,000.00 on the real estate (¶ 1).
10. Invested $1,100.00.
21. Withdrew $400.00.
31. The debit balance of his Personal account, $45.25, was transferred to his Capital account; the Profit and Loss statement was made and the net profit, $622.48, was transferred to the credit of his Capital account, when the Profit and Loss account was closed.

MERCHANDISE ACCOUNTS.

§ 39. **Merchandise** is a general term applied to goods bought and sold in a mercantile or trading business, such as groceries, dry goods, hardware, etc. Merchandise bought is termed Purchases, merchandise sold is termed Sales, and the merchandise on hand at the beginning or end of a fiscal period is termed an Inventory. Merchandise purchased, but later returned to the one from whom it was bought, is known as Returned Purchases, and merchandise sold, but later returned by the one to whom it was sold, is known as Returned Sales. Returned purchases and sales arise from the fact that the merchandise received by the purchaser may not agree with what he ordered or it may have been damaged in transit, and the seller agrees to its return.

If desired, one account may be kept with Merchandise, which will show all the facts relating to its purchase and sale and the results thereof. However, if this is done, it causes returned sales to be recorded as if they were purchases and returned purchases to be recorded as if they were sales, which is incorrect. It also requires the cost price to appear on the debit side and the sale price on the credit side of the same account, which is contrary to the accounting principle that equal values should appear on each side of the same account, as in cash and accounts with customers. For these and other reasons discussed later in the course, separate accounts are kept with transactions affecting purchases, and those affecting sales.

PURCHASES ACCOUNT.

§ 40. **The Object of this Account** is to show the cost of merchandise purchased. It is the record of transactions affecting the purchase of those articles purchased for sale in the regular conduct of the business, and such articles on hand at the beginning of the business or fiscal period.

Debit the Purchases Account:

¶ 1. For the value of merchandise on hand at the beginning of the business or of the fiscal period.

¶ 2. For the invoice cost of merchandise purchased.

¶ 3. For amounts paid for freight, drayage, and storage of merchandise purchased.

Credit the Purchases Account:

¶ 4. For the cost of merchandise returned to the seller for credit and allowances by the seller for damaged goods.

¶ 5. *The Difference Between the Two Sides of this Account* shows the net cost of merchandise purchased which includes the inventory at the beginning of the period, and the purchases and freight cost during the period. The inventory at the beginning of the period (¶ 1), the purchases (¶ 2), the freight and drayage (¶ 3), the returned purchases (¶ 4), and the inventory at the end of the period, are shown on the Profit and Loss Statement. The inventory at the end of the period is also shown on the Balance Sheet.

¶ 6. *To Close the Purchases Account.* The Purchases account is not closed until the end of the fiscal period, at which time the value of merchandise on hand (inventory) is transferred to the Inventory account, and the cost of goods sold to the Sales account. The amount of the inventory together with the date and the word "Inventory," the amount of the cost of sales and the date together with the words "Cost of Sales" are entered on the credit side. The Purchases account will then balance, and is ruled with single and double red lines and footed with black ink as in Illustration No. 5. If desired, the balance of the Purchases account may be entered on the credit side instead of the two amounts as explained in the note at the bottom of page 68.

Purchases

19				19			
Jan.	2		87 30	Jan.	31	Inventory	992 46
	3		124 50			Cost of Sales	284 24
	5		192 45				1276 70
	10		218 35				
	15		256 25				
	17		28 20				
	23		196 90				
	27		172 75				
			1276 70				
			1276 70				1276 70

Illustration No. 5, Purchases Account for Exercise No. 13.

INVENTORY ACCOUNT.

§ 41. **The Object of this Account** is to show the value of merchandise on hand at the close of the fiscal period as shown by the inventory (§ 77, Illustration No. 23). At this time, the value of merchandise in stock according to the inventory, is taken out of the Purchases account and entered under the Inventory account.

Debit the Inventory Account:

¶ 1. For the value of salable merchandise on hand at the close of the fiscal period. At the same time credit the Purchases account.

Credit the Inventory Account:

¶ 2. For the inventory on the debit side (¶ 1). At the same time debit the Purchases account.

¶ 3. *To Close the Inventory Account.* This account is closed when the value of the inventory is transferred to the Purchases account, which may be at the close of the current fiscal period, or at the close of the next fiscal period. (§ 40, ¶ 1). After this entry has been made the account is ruled with double red lines.

Inventory

19				
Jan.	31	Mdse on hands		992 46

Illustration No. 5a, Inventory Account for Exercise No. 13.

SALES ACCOUNT.

§ 42. **The Object of this Account** is to show the amount received from the sale of merchandise. It is the record of transactions affecting the sale of those articles purchased for sale, the cost of which was charged to the Purchases account.

Debit the Sales Account:

¶ 1. For the selling price of merchandise returned by customers for credit.

Credit the Sales Account:

¶ 2. For the selling price of merchandise sold.

¶ 3. *The Difference Between the Two Sides of this Account* shows the net returns from sales. The total sales (credit side) and the returned sales (debit side) are shown on the Profit and Loss statement.

¶ 4. *To Close the Sales Account.* This account is not closed until the end of the fiscal period at which time the balance (gross profit on sales) is transferred to the Profit and Loss account. The date and the amount of the profit, together with the words "Profit on Sales," are entered on the debit side, the account ruled with single and double red lines and footed with black. (See § 40, ¶ 6, last sentence.)

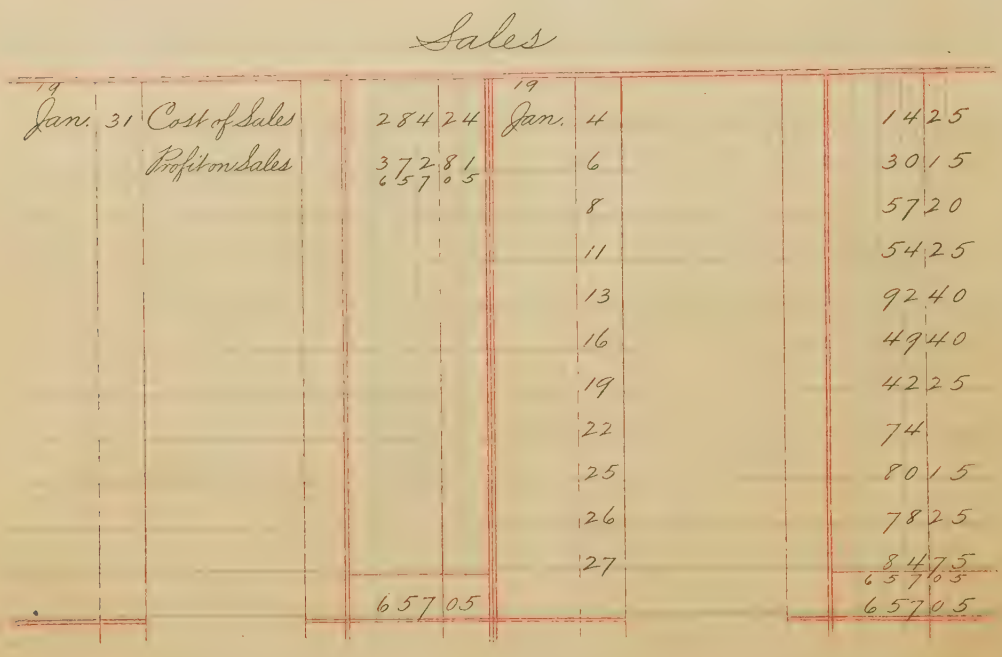


Illustration No. 5b, Sales Account for Exercise No. 13.

Exercises in Merchandise Accounts. Prepare on ledger paper a Purchases, Sales and Inventory account for each of the three exercises. Exercise No. 13 is the same as Illustrations Nos. 5, 5a and 5b.

Exercise No. 13, Purchases, Sales and Inventory Accounts.

Jan. 2. Bought merchandise from Borches & Co., $87.30 (§ 40, ¶ 2).
3. Bought merchandise from Kaiser Bros., $124.50.

(*Concluded on page 25.*)

(*Exercise No. 13—Continued from page 24.*)

Jan. 4. Sold merchandise to A. R. Jennings, $14.25 (§ 42, ¶ 2).
5. Bought merchandise from City Milling Co., $192.45.
6. Cash sales of merchandise, $30.15 (§ 42, ¶ 2).
8. Sold Central Hotel, $57.20.
10. Bought merchandise from Hazen & Lotspeich, $218.35.
11. Sold merchandise to A. R. Jennings, $54.25.
13. Cash sales of merchandise, $92.40.
15. Bought merchandise from Borches & Co., $256.25.
16. Sold merchandise to Imperial Hotel, $49.40.
17. Bought merchandise from the Lake View Creamery, $28.20.
19. Sold merchandise to A. C. Williams, $42.25.
22. Cash sales of merchandise, $74.00.
23. Bought merchandise from J. Allen Smith, $196.90.
25. Sold Imperial Hotel, $80.15.
26. Sold C. L. Loyd, $78.25.
27. Bought merchandise from Borches & Co., $172.75; sold A. R. Jennings on account, $84.75
31. Inventory, value of goods on hand, $992.46. (§ 41, ¶ 1.)

Close the Purchases and Sales accounts as in Illustrations Nos. 5 and 5b and present the three accounts to the teacher for approval.

Exercise No. 14, Purchases, Sales and Inventory Accounts.

Allow fifteen lines for Purchases, twenty lines for Sales, and five lines for Inventory.

Feb. 1. Salable goods on hand, $316.75 (§ 40, ¶ 1); bought, $1,186.45.
2. Sold merchandise, $73.50 (§ 42, ¶ 2); sold merchandise, $327.56.
5. Sold merchandise, $416.25; sold merchandise, $470.25.
8. Bought merchandise, $857.48; sold merchandise, $65.00.
9. Sold merchandise, $166.50; we returned merchandise, $17.50 (§ 40, ¶ 4).
10. Sold merchandise, $119.85; merchandise returned to us, $6.50 (§ 42, ¶ 1).
11. Sold merchandise, $156.75; bought merchandise, $387.65.
12. Paid freight, $62.85 (§ 40, ¶ 3); sold merchandise, $40.00.
14. Received $360.50 for cash sales; sold on account, $522.36.
17. Sold merchandise, for cash, $572.50.
19. Bought merchandise, $462.92; sold merchandise, $151.00.
21. Sold merchandise, for cash, $594.64.
24. Bought merchandise, $629.40; sold merchandise, $97.00.
25. Sold merchandise, $220.00; bought merchandise, $418.25.
28. Paid freight and drayage bills, $116.89; sold merchandise, $50.00.
28. Salable goods on hand as per inventory, $1,639.47. (§ 41, ¶ 1.)

Exercise No. 15, Purchases, Sales and Inventory Accounts.

Mar. 1. Salable goods on hand as per inventory, $2,465.89 (§ 40, ¶1).
2. Sold merchandise, $389.64; bought merchandise, $396.42.
3. Sold merchandise, $275.49; merchandise returned to us, $10.10 (§ 42, ¶ 1).
5. Sold merchandise, $159.48; purchased merchandise, $132.75.
8. Sold merchandise, $437.69; purchased merchandise, $99.87.
12. Sold merchandise, $375.42; returned merchandise for credit, $25.00.
15. Sold merchandise, $526.49; paid freight and drayage bill, $100.00.
17. Purchased on account, $436.82; sold for cash, $86.42.
22. Received $349.75 for cash sales.
23. Purchased merchandise, $564.99; sold merchandise, $237.84.
25. Paid for storage in warehouse, $65.40 (§ 40, ¶ 3).
30. Sold merchandise, $409.12; paid freight and drayage bills to date, $109.62.
31. Sold entire stock of goods, $2,472.48.

EXPENSE ACCOUNT.

§ 43. The Object of this Account is to show the cost of conducting the business. It is the record of transactions affecting the operating cost. As explained in § 29, this may be shown in one account or a number of accounts. The special debits and credits given below, apply when only one account is kept.

Debit the Expense Account:

¶ 1. *For amounts paid for rent, telephone service, license, heat, light, salaries, and other services rendered in conducting the business.

¶ 2. †For the cost of property which will be consumed by its use either, (a) on hand at the beginning of the business, or (b) subsequently purchased.

Credit the Expense Account:

¶ 3. For rebates that reduce the cost shown by the debit side.

¶ 4. For amounts received for sale of property, the value of which was charged to this account when purchased.

¶ 5. *The Difference Between the Two Sides of This Account* shows the cost of conducting the business. It is shown as an operating cost on the Profit and Loss statement.

¶ 6. *To Close the Expense Account.* This account is not closed until the end of the fiscal period, at which time the balance is closed into the Profit and Loss account. The date and the amount of the balance, together with the words "Net Expense" are entered on the credit side, the account ruled with single and double red lines and footed with black ink, as in Illustration No. 6.

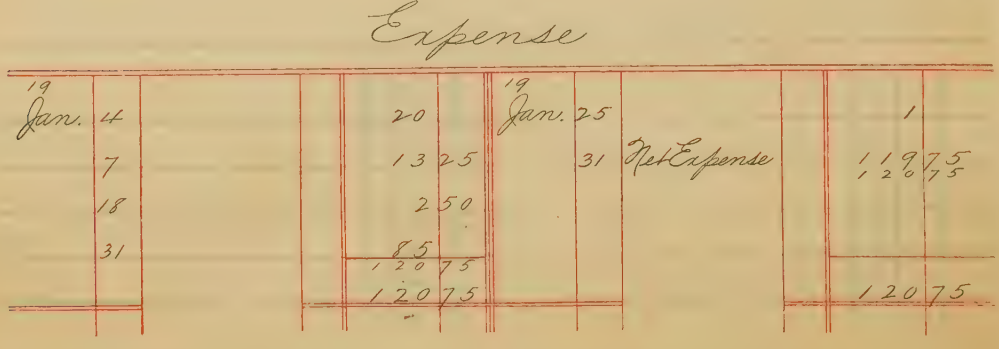


Illustration No. 6, Expense Account for Exercise No. 16.

*If at the time of closing, there are obligations for services rendered, the cost of which will be charged to Expense, the amount should be entered on the debit side before closing, because it increases the expenses.

†This may be debited to a special account, as Office Supplies, Postage, Advertising Material, etc. When debited to Expense and, at the time of closing, a part of the property remains on hand, the value is entered on the credit side before closing, because it reduces the expenses.

Exercises in the Expense Account. Prepare on ledger paper an account for each of the three exercises. Exercise No. 16 is the same as Illustration No. 6. When the work is presented to the teacher, each account should be closed as in the illustration. References are given to § 43 when the student may be in doubt as to the reason for the debit or credit.

Exercise No. 16, Expense Account.

Jan. 4. Paid city and state license, $20.00 (¶ 1).
7. Paid for stationery, $13.25 (¶ 2).
18. Paid for stamps, $2.50 (¶ 2).
25. Received $1.00 for 2 reams of typewriting paper included in the purchase of stationery on the 7th (¶ 4).
31. Paid rent and salaries for the month, $85.00 (¶ 1).
Close the balance into the Profit and Loss account (¶ 6).

Exercise No. 17, Expense Account.

Feb. 3. Paid for stationery and books of account, $19.65 (¶ 2).
9. Paid employees, $35.00 (¶ 1).
12. Paid for one thousand letterheads and envelopes, $6.50.
19. Paid telephone rent, $12.00.
27. Paid for stamps, $5.00.
28. Paid rent, $40.00, and employees' salaries, $35.00; received $5.00 for desk room rented to W. H. Jones (¶ 3). Close the balance into the Profit and Loss account.

Exercise No. 18, Expense Account.

Mar. 1. Stationery and stamps on hand, $50.00 (¶ 2).
2. Paid livery bill for board of horses, $24.00.
5. Paid for repairs in store, $14.50.
13. Paid employees, $96.50; paid for stamps, $10.00.
25. Paid premium on insurance policy, $22.50.
31. Paid bookkeeper's salary, $40.00, and other employees, $75.00 (¶ 1); received $6.00 as rebate on livery bill, which was for services of our horses and was overlooked when the bill was paid (¶ 3); sold stamps to customer, $2.00 (¶ 4). There are stamps, stationery, etc., on hand valued at $12.50; rent unpaid, $40.00.

Before closing the balance into the Profit and Loss account, enter the value of the "Stamps" on the credit side and the "Unpaid Rent" on the debit side. Write the words in quotations in the explanation columns. See note at the bottom of page 26. Rule the Expense account and enter the value of the stamps on the debit side below the ruling; enter the amount of the unpaid rent on the credit side below the ruling.

PROFIT AND LOSS ACCOUNT

§ 44. **The Object of this Account** is to show the operating cost, special losses, principal income, and special profits for the period. The facts in connection with this account are not obtained from transactions, but by transferring the balances of the operating, loss, income, and profit accounts, hence it is sometimes referred to as a summary account. It is opened only at the close of the fiscal period and when the balances of all the accounts mentioned have been transferred to it, its balance is transferred to the Capital account.

Special profits and losses that occur during the period should not be credited or debited to the Profit and Loss account, but should be credited or debited to a special account, the name of which will designate the profit or loss, as Loss on Stolen Typewriter, Loss on Doubtful Accounts, Profit on Real Estate, etc.

Debit the Profit and Loss Account:

¶ 1. At the close of each fiscal period with the balance of the expense account or accounts.

¶ 2. At the close of each fiscal period with the balance of profit or loss accounts which show a debit balance.

Credit the Profit and Loss Account:

¶ 3. At the close of each fiscal period with the gross profit on sales.

¶ 4. At the close of each fiscal period with the balance of profit or loss accounts which show a credit balance.

¶ 5. *The Balance of this Account* shows the net profit or net loss for the fiscal period; it is the same as the "Net Profit" or "Net Loss" on the Profit and Loss statement.

¶ 6. *To Close the Profit and Loss Account.* This account is not closed until all the profit and loss accounts have been closed into it at the close of the fiscal period. The date and the amount of the balance, together with the words "Net Profit" or "Net Loss" are entered on the smaller side, the account ruled with single and double red lines and footed with black ink, as in Illustration No. 7.

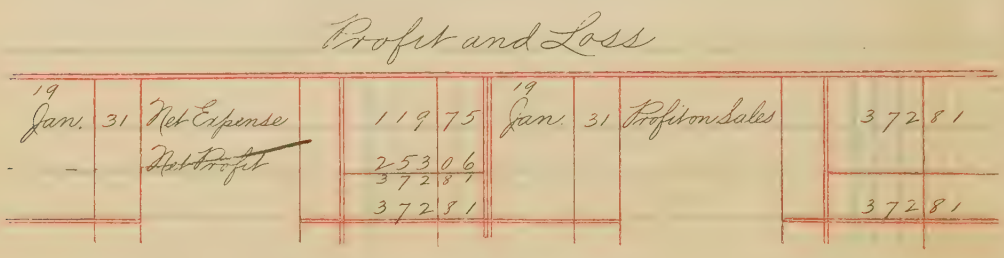


Illustration No. 7, Profit and Loss Account for Exercise No. 19.

Exercise No. 19. Profit and Loss Account. The Profit and Loss statement made by the bookkeeper for Guy R. Newberry at the close of the fiscal period, ending January 31, shows a loss of $119.75 on Expense (¶ 1), and a profit of $372.81 on sales of merchandise (¶ 3). The net profit is to be closed into his Capital account.

The student should check this exercise with Illustration No. 7, also note the connection between it and Illustrations Nos. 5b, 6 and 4. No further exercises are provided.

QUESTIONS

1. What is the object of the Cash account? (§ 34.)
2. What does the balance show? (§ 34, ¶ 4.)
3. How is the Cash account closed? (§ 34, ¶ 5.)
4. Name the two classes of personal accounts. (§ 35.)
5. What is the object of accounts with customers? (§ 36.)
6. When and how are accounts with customers closed? (§ 36, ¶ 12.)
7. How are special payments designated? (§ 36, Note.)
8. What is the object of accounts with creditors? (§ 37.)
9. What is the object of the Capital account? (§ 38.)
10. When, why and how is the Capital account closed? (§ 38, ¶ 10.)
11. After it is closed, where is the Present Capital written?
12. What is merchandise? Purchases? Sales? (§ 39.)
13. What is the object of the Purchases account? (§ 40.) Sales? (§ 42.)
14. For what is the Purchases account debited and credited? (§ 40, ¶ ¶ 1–4.)
15. For what is Inventory account debited? (§ 41, ¶ 1.) Credited? (§ 41, ¶ 2.)
16. For what is Sales account debited? (§ 42, ¶ 1.) Credited? (§ 42, ¶ 2.)
17. What is the object of the Expense account? (§ 43.)
18. What does this account show on the Profit and Loss statement? (§ 43, ¶ 5.)
19. How is the Expense account closed? (§ 43, ¶ 6.)
20. What is the object of the Profit and Loss account ? (§ 44.)

RECORDING TRANSACTIONS AND POSTING.

§ 45. **Introduction.** The discussion on pages 29–46 relates to (a), the method of determining the accounts debited and credited in transactions; (b), books of account; (c), method of recording transactions in the journal, posting, illustrations, and exercises; (d), method of recording transactions in the purchases, sales, and cash books, posting, illustrations, and exercises; (e), Trial Balance.

§ 46. **Each Transaction Affects** at least two accounts (§ 21), one or more showing the value of the property or services received, and one or more the value of the property or services exchanged. The general rule and the application of it (§§ 47–52) provide the information necessary to determine the accounts affected in any transaction; the name of the account is determined by the nature of the property, service, or revenue (§ 20).

§ 47. **General Rule for Debits and Credits.** Debit the account which represents the value received and credit the account which represents the value given. This rule may be more explicitly expressed as follows:

Debit the Account which represents:	*Credit the Account which represents:*
(*a*) The cash received or property purchased.	(*d*) The cash paid or property sold.
(*b*) The person to whom cash is paid or property is sold on account.	(*e*) The person from whom cash is received or property is purchased on account.
(*c*) The service for which cash or other property is given in payment.	(*f*) The service for which cash or other property is received.

§ 48. **Application of General Rule.** Based on the classification given in § 19, this rule is especially applied as in §§ 49–52.

§ 49. **Cash Transaction.** When cash is *received* in payment for merchandise or other property sold, debit Cash and credit Sales or the account which is to represent the value of the property sold (§ 47, a and d). When cash is *paid* for merchandise or other property purchased, debit Purchases or the account which is to represent the value of the property purchased and credit Cash (§ 47, a and d).

The entry for a cash sale is shown in the second entry in Illustration No. 11, debit side of the cash book; the entry for a cash purchase, in the second entry in Illustration No. 12, credit side of the cash book. The third and fourth entries in Illustration No. 8 show transactions of the same nature journalized.

§ 50. **Credit Transaction.** When merchandise or other property is *purchased* on account by the business, debit Purchases or the account that will show the value of the property purchased and credit the person or firm from whom the property was purchased (§ 47, a and e). When merchandise or other property is *sold* on account by the business, debit the person or firm to whom it is sold and credit Sales or the account which shows the value of the property sold (§ 47, b and d).

The entry for a purchase on account is shown in an entry in the purchases book, Illustration No. 9; the entry for a sale on account, in an entry in the sales book, Illustration No. 10. The second and fifth entries in Illustration No. 8 show transactions of the same nature journalized.

§ 51. **Payment of a Debt.** When a debt is *paid by* the business, debit the account of the person or firm who receives the cash or other property given in payment and credit Cash or the account which shows the value of the property given in payment (§ 47, b and d). When a debt is *paid to* the business, debit

Cash or the account which is to show the value of the property received and credit the account of the person or firm from whom it is received (§ 47, a and e).

The entry for a debt paid by the business is shown in the third entry in Illustration No. 12, credit side of the cash book; the entry for a debt paid to the business, in the third entry in Illustration No. 11, debit side of the cash book. If no cash is involved, the entry is made in the journal.

§ 52. **Service Transaction.** When a *service is purchased* by the business, debit the account which is to show its value and credit Cash or the account which represents the value of the property given in payment (§ 47, c and d). When cash or other property is received by the business in payment of *services rendered* by it, debit Cash or the account which is to represent the value of the property received and credit the account which is to show the value of the income or revenue (§ 47, a and f).

The entry for a service purchased by the business is shown in the first entry in Illustration No. 12, credit side of the cash book. The last entry in Illustration No. 8 shows a transaction of the same nature journalized. When cash is received in payment for a service rendered by the business, the entry is made on the debit side of the cash book; if no cash is involved, the entry is made in the journal. Both entries are illustrated later in the course.

§ 53. **Method of Recording Transactions.** Transactions are recorded as they occur and under the date of the occurrence. All the information is obtained from some voucher or business form which should be filed for reference.

A correct record of the transactions in connection with a business is one of the essential elements of bookkeeping. This record must be permanent and arranged for convenient reference, hence the necessity for blank books usually termed books of account.

BOOKS OF ACCOUNT.

§ 54. **Books of Account** are bound or loose leaf books made of writing paper ruled as desired. There are three classes—books of original entry, books of classified accounts (sometimes termed complete entry), and auxiliary books. Illustrations Nos. 8, 9, 10, 11 and 12 show forms of ruling for books of original entry, and Illustration No. 13 a form of ruling for a book of classified accounts.

§ 55. **Books of Original Entry** are those in which the transactions are recorded as they occur. The record shows the *date*, the *name* of the account *debited*, the *name* of the account *credited*, the *amount* debited and credited, and the explanation or information for the auditor. In a mercantile or trading business, the usual books of original entry are the journal, purchases book, sales book, and cash book.

§ 56. **Books of Classified Accounts** (Complete Entry) are those in which the transactions relative to each account are grouped together. The complete history of each account is shown, the debits appearing on the left side, and the credits on the right side. This information is obtained from the books of original entry, and the amounts are transferred (posted § 58) from time to time, usually once each day. The ledger is the principal book of classified accounts.

§ 57. **Auxiliary Books** contain detailed information supporting the record in a book of original entry. They include check stubs, note stubs, draft stubs, receipt stubs, and bank pass book.

§ 58. **Posting** is transferring the amounts from a book of original entry to the ledger, or some other book of classified accounts. This is done so that each account in the ledger will show all of the amounts debited or credited to it.

RECORDING TRANSACTIONS IN THE JOURNAL.

§ 59. **The Journal** is a book of original entry in which all the transactions may be recorded. If it is the only book of original entry, all the transactions are recorded in it; if the purchases, sales, cash receipts, and cash payments are recorded in special books, it contains only those transactions not recorded in these books.

The record shows the date, name of the account debited and amount, name of the account credited and amount, and the explanation or information for the auditor. Illustration No. 8 shows one form of the journal; other forms will be illustrated in succeeding sets.

¶ 1. *Posting from the Journal.* Each amount in the debit column is posted (§ 58) to the debit side of the account written on the same line with it. Each amount in the credit column is posted to the credit side of the account written on the same line with it. The amounts are posted in the order in which the transactions are recorded. The page in the journal and the letter "J" are entered in the folio column in the ledger for reference; the page of the account in the ledger is written in the folio column in the journal to indicate the posting.

¶ 2. *Journalizing* is indicating the accounts debited and credited in a transaction before recording it in a book of original entry; the names of the accounts debited and credited, and the amounts are written in the form of a journal entry as in Illustration No. 8.

October 1, 19

LF	Names of Accounts and Explanation	Debit	Credit
1	Cash	1000	
1	D. C. Brown Capital		1000
	Invested in the office supplies business.		
	2		
1	Purchases	317 65	
1	A. R. King		317 65
	Bought on account per invoice Oct. 1		
	5		
1	Cash	75 50	
1	Sales		75 50
	Sundry cash sales to date.		
	7		
1	Purchases	125 75	
1	Cash		125 75
	Bought for cash per invoice of this date.		
	12		
1	E. B. Moore	75	
1	Sales		75
	Sold one desk on account.		
	15		
1	Expense	25	
1	Cash		25
	Paid rent of store.		

Illustration No. 8. One Form of the Journal.

Explanation. These six entries are the results of recording the transactions for Exercise No. 20 on page 32. The "1" in the ledger folio (LF) column at the left of each account indicates the page in the ledger. The posting is illustrated on page 32 immediately following the exercise.

EXERCISES IN JOURNALIZING, POSTING AND TAKING A TRIAL BALANCE

Exercise No. 20. D. C. Brown, Proprietor.

Record the following transactions on a sheet of journal paper, as in Illustration No. 8.

Oct. 1. D. C. Brown invested $1000.00 in the office supplies business.
Debit and credit as explained in § 47, *a* and *e*, page 29.

2. Bought from A. R. King, on account, merchandise per invoice of the 1st, $317.65.
Debit and credit as explained in § 47, *a* and *e*, page 29.

5. Received $75.50 for sundry cash sales.
Debit and credit as explained in § 47, *a* and *d*, page 29.

7. Bought for cash, merchandise per invoice of this date, $125.75.
Debit and credit as explained in § 47, *a* and *d*, page 29.

12. Sold E. B. Moore, on account, one desk, $75.00. (§ 47, *b* and *d*.)

15. Paid rent of store, $25.00. (§ 47, *c* and *d*.)

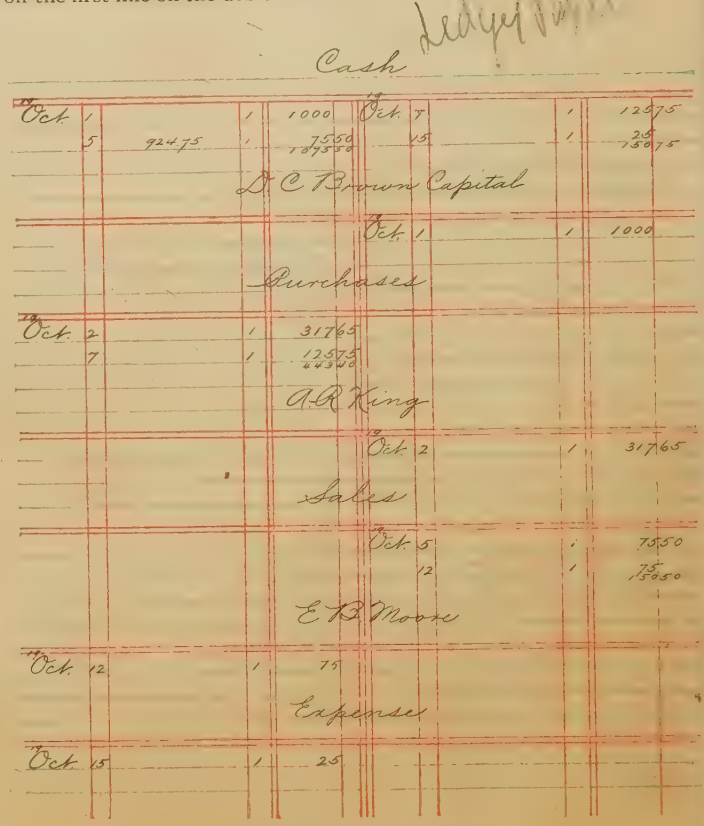
On a sheet of ledger paper open accounts with Cash, D. C. Brown Capital, Purchases, A. R. King, Sales, E. B. Moore, and Expense; separate the accounts with double red lines as in the illustration below. Allow the same space for each account as indicated by the blue lines in the illustration below. Post to these accounts as explained in § 59, ¶ 1, and the illustration below, then take a Trial Balance as explained at the top of page 33.

Explanation. The illustration at the right shows the results of posting the entries in Illustration No. 8. The student should trace the posting of each entry in Illustration No. 8 to the accounts in the illustration at the right. He will observe that in the first entry Cash is debited and D. C. Brown Capital credited with $1000.00; that the $1000.00 written on the same line with "Cash" appears, after posting, on the first line on the debit side of the Cash account; that the $1000.00 written on the same line with "D. C. Brown Capital" appears, after posting, on the credit side of his account.

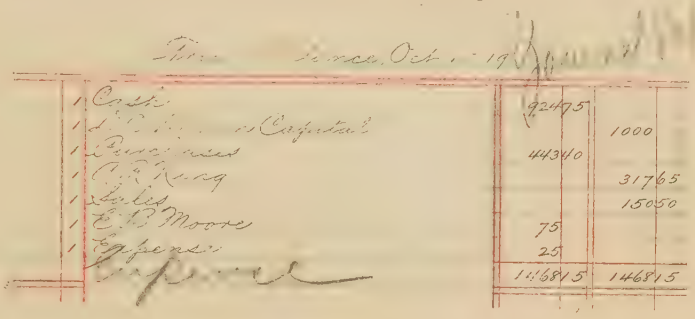
The figure "1" in the folio column at the left of each account in the journal indicates that the account appears on page one in the ledger; the figure "1" in the folio column in the ledger indicates that each amount is posted from page one in the journal. See printed headings at the top of the columns in Illustration No. 8 and skeleton form of ledger on page 38 for the meaning of "folio column."

The second entry is posted to the debit side of the Purchases account and the credit side of A. R. King's account; the third, to debit of Cash and credit of Sales; the fourth, to the debit of Purchases and credit of Cash; the fifth, to the debit of E. B. Moore and the credit of Sales; the sixth, to the debit of Expense and credit of Cash.

Since the amounts entered in the debit and credit columns in the journal are the same, the totals of the debits and credits in the ledger should be equal. See Trial Balance at the top of page 33.



Trial Balance. The Trial Balance is a list of the open accounts in the ledger, as explained in detail at the top of page 42. The illustration at the right shows the list of open accounts in the ledger illustrated on page 32. It proves that each amount indicated as a debit in the journal has been posted to the debit side of the ledger, and that each amount indicated as a credit in the journal has been posted to the credit side of the ledger. The student will compare the Trial Balance with the ledger accounts, and then take a Trial Balance (use journal paper) from his ledger in the same manner as in the illustration.



Exercise No. 21. I. W. Walker, Proprietor.

Record the following transactions on a sheet of journal paper in the same manner as Exercise No. 20.

Nov. 1. I. W. Walker invested $2,000.00 in the musical instruments business.
2. Bought of Wurlitzer & Co., on account, merchandise per invoice of the 1st, $418.65 (§ 50).
4. Sold J. F. Sherwood, on account, one victrola, $250.00 (§ 50).
5. Bought of Star Piano Co., for cash, merchandise per invoice of this date, $614.65 (§ 49).
7. Sold E. D. Carpenter, on account, one accordion, $15.00 (§ 50).
11. Bought of Steinway & Sons, on account, merchandise per invoice of the 7th, $278.50 (§ 50).
13. Cash sales to date, $175.50 (§ 49).
16. Paid Wurlitzer & Co., in full of account, $418.65 (§ 51).
18. Received from J. F. Sherwood, $100.00 to apply on account.
23. Paid Steinway & Sons $100.00 to apply on account.
25. Sold M. E. McMahon, on account, 1 Star Piano, $450.00.
27. Cash sales to date, $280.65.
30. Paid $40.00 for rent of store (§ 52).

On a sheet of ledger paper, open accounts as follows: Cash, five lines; I. W. Walker Capital, three lines; Purchases, four lines; Sales, six lines; Expense, three lines; each of the five personal accounts, three lines; separate each account with double red lines as in the illustration on page 32. Post to these accounts as explained under Exercise No. 20. Rule Wurlitzer & Co.'s account with a single red line when it balances; see illustration at the top of page 41. Take a Trial Balance.

Exercise No. 22. J. O. Murdock, Proprietor.

Record the following transactions on a sheet of journal paper in the same manner as Exercises Nos. 20 and 21.

May 1. J. O. Murdock invests $2,000.00 in the retail clothing business.
Bought of Jones Bros., on account, per invoice of this date, $216.87 (§ 50).
2. Bought of Cohen & Eisenberg on account, merchandise per invoice of the 1st, $75.42 (§ 50).
3. Sold A. C. Brown, on account, 1 suit of clothes, $44.00.
4. Bought of Hart, Schaffner & Marx, for cash, merchandise per invoice of this date, $218.72.
5. Sold for cash, 1 suit of clothes, $60.00; 1 overcoat, $50.00 (§ 49).
6. Sold J. C. Wilson, on account, 1 suit of clothes, $50.00; 5 shirts at $2.50.
8. Paid Cohen and Eisenberg, $75.42, in full for bill purchased on the 2d (§ 51).
Sold Charles Horne, on account, 1 suit of clothes, $50.00; 1 vest, $10.00.
9. Bought of Hart, Schaffner & Marx, on account, merchandise per invoice of the 8th, $167.92.

(*Concluded on page 34.*)

(*Exercise No. 22—Continued from page 33.*)

May 10. Sold A. C. Brown, on account, 1 suit of clothes, $50.00; 1 pr. pants, $15.00; 4 shirts at $2.50; 6 shirts at $2.00; 3 pr. socks at 50c.
11. Received $50.00 from Charles Horne, on account (§ 51).
12. Bought of Cohen & Eisenberg, on account, merchandise per invoice of the 10th, $84.75 (§ 50).
13. Paid $10.00, telephone rent for the month (§ 52).
Received $62.50 from J. C. Wilson in payment for bill sold the 6th.
15. Bought of David Bros., on account, per invoice of the 7th, $203.18.

On a sheet of ledger paper, open accounts as follows: J. O. Murdock Capital, three lines; Cash, twelve lines; Purchases, nine lines; Sales, nine lines; Expense, four lines; each of the seven personal accounts, five lines. Post to these accounts as previously instructed. Rule each personal account with a single red line when it balances. Take a Trial Balance as instructed at the top of page 33.

Exercise No. 22—Concluded.

Record the following transactions on the same sheet of journal paper used for the first part of this exercise, writing the date, "17" on the next blue line below the entry for the 15th.

May 17. Bought of Jones Bros., on account, per invoice of the 12th, $162.50.
18. Paid David Bros. $203.18, in full for bill purchased on the 15th (§ 51).
Received $87.55 from J. C. Wilson for a cash sale (§ 49).
19. Sold Charles Horne, on account, 8 shirts at $2.50; 1 tie, $1.25.
Paid the Central Coal Co. $12.00 for coal delivered today to be used for heating the building (§ 43, ¶ 2).
20. Received $25.00 from A. C. Brown, on account.
Received $90.00 for 2 suits of clothes (§ 49).
22. Paid M. M. Condon for freight and drayage, $62.25 (§ 40, ¶ 3).
23. Gave Cohen & Eisenberg $84.75 in full of account.
24. Paid Jones Bros. $140.00, on account.
26. Received cash from Charles Horne in full for bill sold on the 19th.
30. Paid Hart, Schaffner & Marx $167.92, in full for bill bought on the 9th.
31. Paid rent, $25.00; bookkeeper's salary, $35.00; clerk's salary, $30.00.

Post to the accounts on the ledger sheet used for the first part of this exercise and take a Trial Balance. Rule each personal account with a single red line when it balances.

Further practice in journalizing may be obtained by recording on journal paper the transactions for Exercises Nos. 24, 25 and 26 on pages 44-46.

RECORDING TRANSACTIONS IN THE PURCHASES, SALES AND CASH BOOKS.

§ 60. **The Purchases Book** is a book of original entry in which all purchases of merchandise on account are recorded. The information for the record is obtained from the invoice received; it is copied in the purchases book, or the original invoice filed as the purchases book record. The illustration on page 35 shows one form of a purchases book; other forms will be illustrated in succeeding sets.

¶ 1. *To Enter a Purchase of Merchandise on Account.* A purchase of merchandise on account is entered in the purchases book on one line in the following order: the date; the name of the person or firm from whom the merchandise is purchased; the address, if desired; the date of the invoice; the terms and the amount. It is not necessary to indicate the name of the account debited because the Purchases account is debited for the invoice cost of merchandise purchased, as explained in § 40, ¶ 2. The date of entry should be written on the invoice before it is filed.

¶ 2. *Posting from the Purchases Book.* Each amount written in the first column is posted to the credit side of the account written on the same line with it; this account bears the name of the person or firm from whom the merchandise was purchased. The date, the letter "P" to indicate the name of the book, and the

page of the purchases book (or invoice number) are entered in the ledger. If special terms are given, that is, a definite time stated for payment, this is written in the explanation column of the ledger account. The page of the ledger is written in the folio column of the purchases book, to indicate the posting.

¶ 3. *Forwarding and Posting the Total.* The Purchases account is not debited with the amount of each purchase, but with the total purchases at the end of the month, or when the Trial Balance is to be made. If the entries for the period require more than one page, the total of the first page is forwarded to the top of the second and the same plan is continued until the total is to be posted. "Carried Forward" and the amount are entered at the bottom of the first page, and "Brought Forward" and the amount at the top of the second and succeeding pages. The total of each page is entered below a single red line or between single and double red lines, as desired.

¶ 4. *Cash Purchases* may be entered in the cash book, or in the purchases book and cash book. If entered in the cash book only, Purchases is debited with the amount of the purchase. If entered in both the purchases book and cash book, the entries are the same as a purchase of merchandise on account and a cash payment to a creditor; if an account is not to be opened with the person or firm from whom the cash purchase is made, the entry is checked in both the purchases book and cash book. The nature of the business and the wishes of the management will determine which method is the better practice.

January, 19

2	2	E. C. Cline	Jan 1 - account	✓	77	30		
3	2	Langley Bros.	2 - "	✓	134	95		
23	2	Logan & Moseley	23 - "	✓	228	60		
					440	85		
31	1	Purchases Dr. Total Credit Purchases					✓	440 85

Illustration No. 9, Purchases Book for Exercise No. 23.

Explanation. The first three entries are a record of the purchases of merchandise on account outlined in the 2d, 3d and 12th transactions in Exercise No. 23 on page 43.

The figure "2" at the left of each name indicates the posting (§ 60, ¶ 2) to page two in the ledger as in the first entry on the credit side of the respective accounts in Illustration No. 13 on page 41. The fourth entry shows the total purchases on account for the month. The figure "1" at the left of the word "Purchases" indicates the posting (§ 60, ¶ 3) to the Purchases account in the ledger, as in the second entry on the debit side of the Purchases account, Illustration No. 13 on page 40.

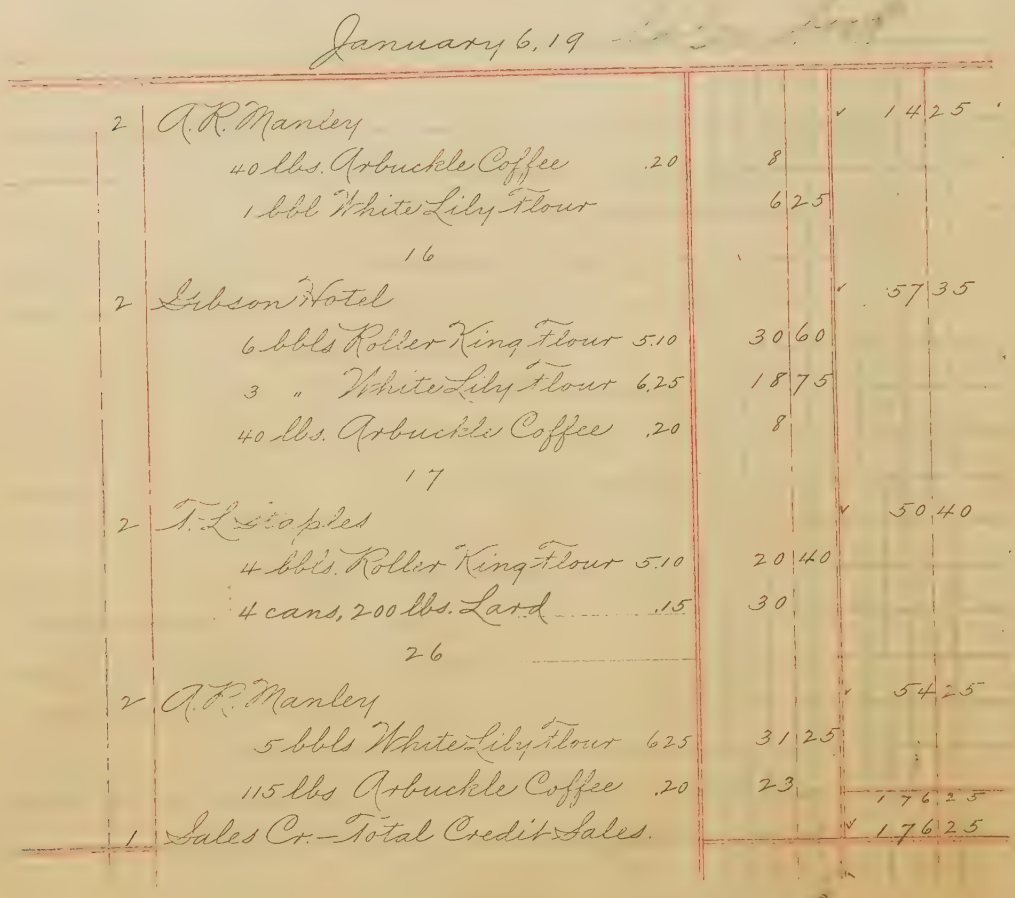
§ 61. The Sales Book is a book of original entry in which sales of merchandise on account are recorded. The information for the record is obtained from the bill rendered; it is copied in the sales book or a carbon copy of the bill retained as the sales book record. Illustration No. 10 on page 36 shows one form of the sales book; other forms will be illustrated in succeeding sets.

¶ 1. *To enter a Sale of Merchandise on Account.* A sale of merchandise on account is entered in the sales book as follows: the date, which is written at the top of the page for the first sale entered, and in the center of the page for the succeeding sales; the name of the person or firm to whom the merchandise is sold; the address, if desired; the items sold, this description being the same as the items on the bill; and the amount. Illustration No. 10 shows the position of the entries. The amount is entered on the same line with the name of the person or firm, and the description of the items sold indented, to facilitate posting.

¶ 2. *Posting from the Sales Book.* Each amount written in the second money column is posted to the debit side of the account written on the same line with it; this account bears the name of the person or firm to whom the merchandise was sold. The date, the letter "S" to indicate the name of the book, and the page of the sales book are entered in the ledger. If special terms are given, that is, a definite time in which payment is to be made, this is written in the explanation column of the ledger account. The page of the ledger is written in the folio column of the sales book, to indicate the posting.

¶ 3. *Forwarding and Posting the Total.* The Sales account is not credited with the amount of each sale, but with the total sales at the end of the month, or when the Trial Balance is to be made. If the entries for the period require more than one page, the total of the first page is forwarded to the top of the

(*Concluded on page 37*)



January 6, 19--

2	A. R. Manley				14 25
	40 lbs. Arbuckle Coffee	.20	8		
	1 bbl White Lily Flour		6 25		
	16				
2	Gibson Hotel				57 35
	6 bbls Roller King Flour	5.10	30 60		
	3 " White Lily Flour	6.25	18 75		
	40 lbs. Arbuckle Coffee	.20	8		
	17				
2	T. L. Staples				50 40
	4 bbls. Roller King Flour	5.10	20 40		
	4 cans, 200 lbs. Lard	.15	30		
	26				
2	A. R. Manley				54 25
	5 bbls White Lily Flour	6.25	31 25		
	115 lbs Arbuckle Coffee	.20	23		
					176 25
1	Sales Cr.—Total Credit Sales.				176 25

Illustration No. 10, Sales Book for Exercise No. 23.

Explanation: The first four entries are a record of the sales of merchandise on account outlined in the 5th, 9th, 10th and 13th transactions in Exercise No. 23 on page 43.

The figure "2" at the left of each name indicates the posting (§ 61, ¶ 2) to page two in the ledger as in the entries on the debit side of the respective accounts in Illustration No. 13 on page 41. The fifth entry shows the total sales of merchandise on account for the month. The figure "1" at the left of the word "Sales" indicates the posting (§ 61, ¶ 3) to the Sales account in the ledger, as in the third entry on the credit side of the Sales account, Illustration No. 13 on page 40.

second and the same plan is continued until the total is to be posted. "Carried Forward" and the amount are entered at the bottom of the first page, and "Brought Forward" and the amount, at the top of the second and succeeding pages. The total of each page is entered below a single red line or between single and double red lines, as desired.

¶ 4. *Cash Sales* may be entered in the cash book, or in the sales book and cash book. If entered in the cash book only, Sales is credited with the amount of the sale. If entered in both the sales and cash books, the entries are the same as a sale on account and a cash receipt from a customer; if an account is not to be opened with the person or firm to whom the sale is made, the entry is checked in both the sales and cash books. The nature of the business and the wishes of the management will determine which method is the better practice.

§ 62. **The Cash Book** is a book of original entry in which all receipts and payments of cash are recorded and no other transactions are entered in it. To distinguish between receipts and payments it is customary to record them on separate pages; these are usually opposite each other. Receipts are recorded on the left because the Cash account is debited when cash is received, and payments on the right because the Cash account is credited when cash is paid. Illustration No. 11 on page 38 shows the debit side, and No. 12 on page 39 the credit side of one form of the cash book; other forms will be illustrated in succeeding sets.

¶ 1. *Debit Side.* This page contains a record of all transactions in which cash is received. The record of cash received shows the date of entry (month and day of month), the name of the account credited, explanation and the amount. This information is obtained from the money or checks received, or the receipt stub if receipts are issued. It is not necessary to indicate the name of the account debited because the Cash account is debited for cash received (§ 34, ¶ 2).

¶ 2. *Credit Side.* This page contains a record of all transactions in which cash is paid. The record of cash paid shows the date of entry (month and day of month), the name of the account debited, explanation and the amount. This information is obtained from the stub of the check book (§ 57), or the receipt received for money paid. It is not necessary to indicate the name of the account credited because the Cash account is credited for cash paid (§ 34, ¶ 3).

¶ 3. *To Prove Cash.* Add the debit side and write the total in small pencil figures just beneath the last amount entered; add the credit side, and write the total in small pencil figures just beneath the last amount entered; on scratch paper add the balance on hand at the beginning of the month to the receipts, and from this total deduct the payments; the result should be the same as the cash on hand, which may be in the safe, in the bank, or a part in each place. The pencil figures on each side will be the total of all amounts written above, hence, should not be erased as they can be used when cash is proved again. The cash book is not ruled until the end of the month.

¶ 4. *To Rule the Cash Book.* The cash book is ruled when a Trial Balance is made, which is usually at the close of each month. The balance is entered on the credit side with red ink, and carried down to the debit side on the same page, or forwarded to a new page. The book is ruled with single and double red lines on the same blue lines on each side, and the totals entered with black ink as in Illustrations Nos. 11 and 12.

¶ 5. *Posting from the Debit Side of the Cash Book.* Each amount in the first money column is posted to the credit side of the account written on the same line with it. The posting is indicated by writing the ledger page in the folio column at the left of the name of the account in the cash book, and the page of the cash book with the letter "C" in the folio column in the ledger. The Cash account is not debited with each amount received but with the total receipts at the end of the month as explained in ¶ 7.

(*Continued on page 38*)

Cash

			(Accounts Credited)	(Explanation)	Receipts					
19										
Jan.	1	1	E. T. Taylor, Capital	Investment	✓	1000				
	12	1	Sales	Cash sales	✓	30	50			
	20	2	A. R. Manley	On account	✓	10				
	27	2	Gibson Hotel	" "	✓	30	50			
	30	1	Sales	Cash sales	✓	41	85			
						1112	85	✓	1112	85
	31	1	Cash, Dr.	Total receipts						
								✓	1112	85
Feb.	1		Balance	On hand					823	55

Illustration No. 11, Debit Side of Cash Book for Exercise No. 23.

Explanation: The first five entries are a record of the cash received in the 1st, 7th, 11th, 14th and 15th transactions in Exercise No. 23 on page 43.

The figures "1" and "2" at the left of each name indicates the posting (§ 62, ¶ 5) to pages 1 and 2 in the ledger as in the entries on the credit side of the respective accounts in Illustration No. 13 on pages 40 and 41. The sixth entry shows the total cash receipts for the month. The figure "1" at the left of the word "Cash" indicates the posting (§ 62, ¶ 7) to the Cash account in the ledger, as in the first entry on the debit side of the Cash account, Illustration No. 13 on page 40.

(*Continued from page 37.*)

¶ 6. *Posting from the Credit Side of the Cash Book.* Each amount in the first money column is posted to the debit side of the account written on the same line with it. The posting is indicated by writing the ledger page in the folio column at the left of the name of the account in the cash book, and the page of the cash book with the letter "C" in the folio column in the ledger. The Cash account is not credited with each amount paid but with the total payments at the end of the month as explained in ¶ 7.

¶ 7. *Posting the Totals.* The Cash account in the ledger is debited with the total receipts and credited with the total payments. The posting is indicated by writing the ledger page in the folio column at the left of the name of the account in the cash book, and the page of the cash book with the letter "C" in the folio column in the ledger.

Some bookkeepers advise a Cash account in the ledger, while others accept the cash book as the only record of transactions with cash. A Cash account in the ledger will show the total receipts and total payments of cash for a period longer than one month, while the record in the cash book shows the total receipts and total payments for each month only.

§ 63. **The Ledger** is a book of classified accounts, and is to contain a history of the transactions with each account; it is sometimes called a book of accounts.

NAME OF THE ACCOUNT.

Debits.						*Credits.*					
Year Month	*Day*	*Any special explanation deemed necessary by the bookkeeper.*	*Page of book of original entry.*	*Dollars*	*Cents*	*Year Month*	*Day*	*Any special explanation deemed necessary by the bookkeeper.*	*Page of book of original entry.*	*Dollars*	*Cents*

Illustrating One Form of Ruling for the Ledger.

Cash

19			(Accounts Debited)	(Explanation)	Payments		
Jan	4	1	Expense	City and state license	✓ 20		
	10	1	Purchases	Cash purchase	✓ 192		
	13	2	E. C. Cline	In full of account	✓ 77 30		
					289 30		
	31	1	Cash Cr	Total payments		✓ 289	30
			Balance			823	55
						1112	85

Illustration No. 12, Credit Side of Cash Book for Exercise No. 23.

Explanation: The first three entries are a record of the cash paid in the 4th, 6th and 8th transactions in Exercise No. 23 on page 43.

The figures "1" and "2" at the left of each name indicate the posting (§ 62, ¶ 6) to pages 1 and 2 in the ledger as in the entries on the debit side of the respective accounts in Illustration No. 13 on pages 40 and 41. The fourth entry shows the total cash payments for the month. The figure "1" at the left of the word "Cash" indicates the posting (§ 62, ¶ 7) to the Cash account in the ledger, as in the first entry on the credit side of the Cash account, Illustration No. 13 on page 40.

(*Continued from page 38.*)

As each account has two sides (§ 21), the ruling in this book provides for these. As a rule, the ruling on both sides is the same, because the transactions are the same, except that they affect the account in a different manner. The Illustration at the bottom of page 38 shows a popular form of the ledger. All entries in the ledger originate in some book of original entry, except those that are made at the time of closing if the direct transfer method is employed. Entries which originate in books of original entry are transferred (posted) to the ledger.

§ 64. **Checking the Posting** is comparing the results in the ledger with the entries in the book or books of original entry, and indicating the correctness by a check mark (✓). Errors may be made in posting either in the amount, the side of the account, or the account to which the amount should be posted, hence the necessity for checking. The check marks should be placed on the double line at the left of the amount in the book or books of original entry, and in the ledger, and made large enough not to be overlooked. Unless all check marks are placed on the same vertical line, amounts not checked might be overlooked.

¶ 1. *Method of Checking.* The best results can not be obtained when the checking is done immediately after the posting. Amounts become fixed in the mind, and if the wrong amount is posted the error may not be discovered by checking. At least one day should elapse between the time of posting and the checking. A definite order of checking should be followed if the best results are to be obtained. The better plan is to check the books of original entry in the same order as posted.

§ 65. **Order of Posting.** When transactions are being recorded in the purchases book, sales book, journal and cash book, the following order of posting is suggested: purchases book, sales book, journal, debit side of the cash book, and credit side of the cash book. When this plan is followed, debits are not entered on accounts with creditors before the credits are posted, and credits are not entered on account with customers before the debits are posted.

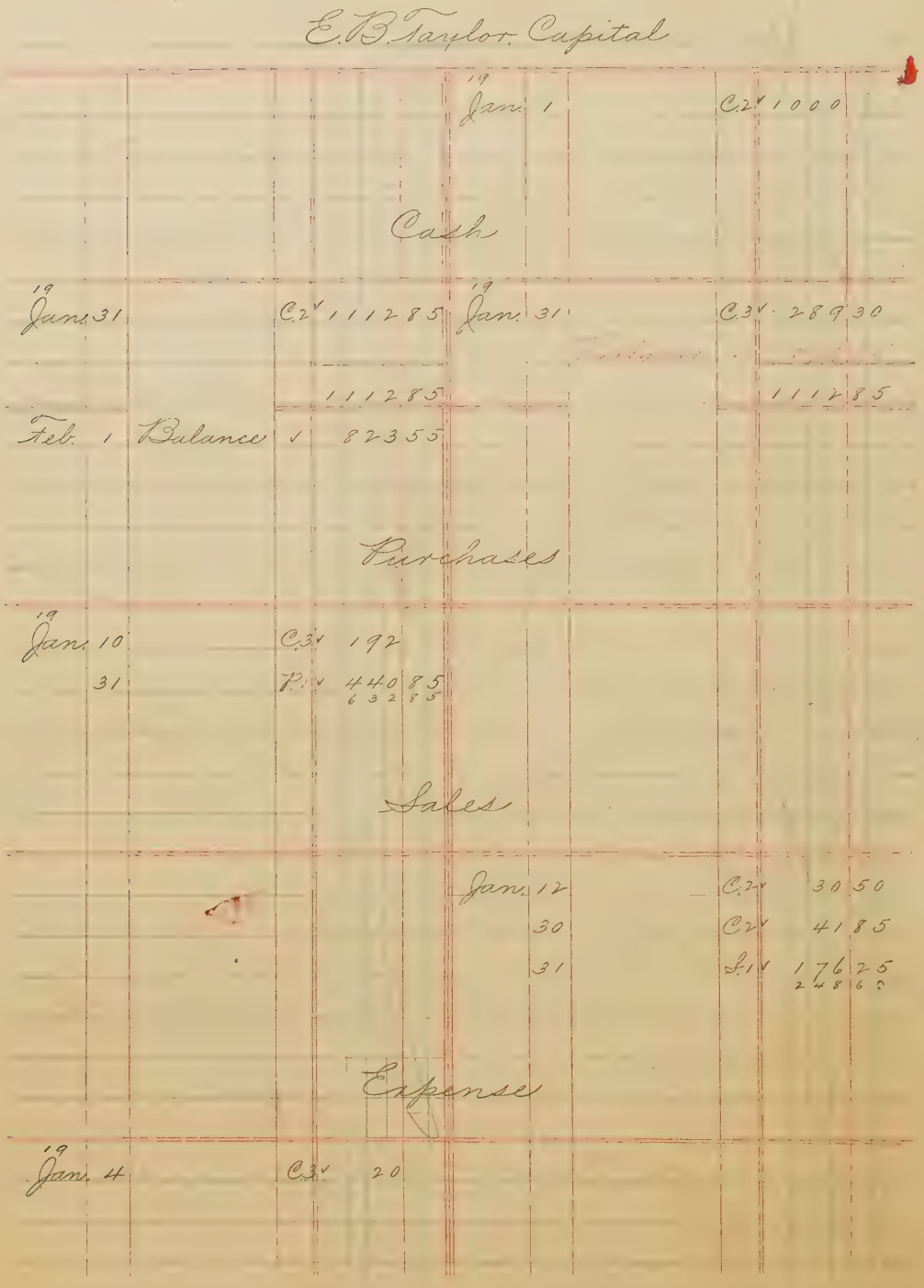


Illustration No. 13. Ledger Accounts for Exercise No. 23—*Continued.*

Explanation: These accounts and those on the opposite page are the result of posting the entries in Illustrations Nos. 9, 10, 11 and 12.

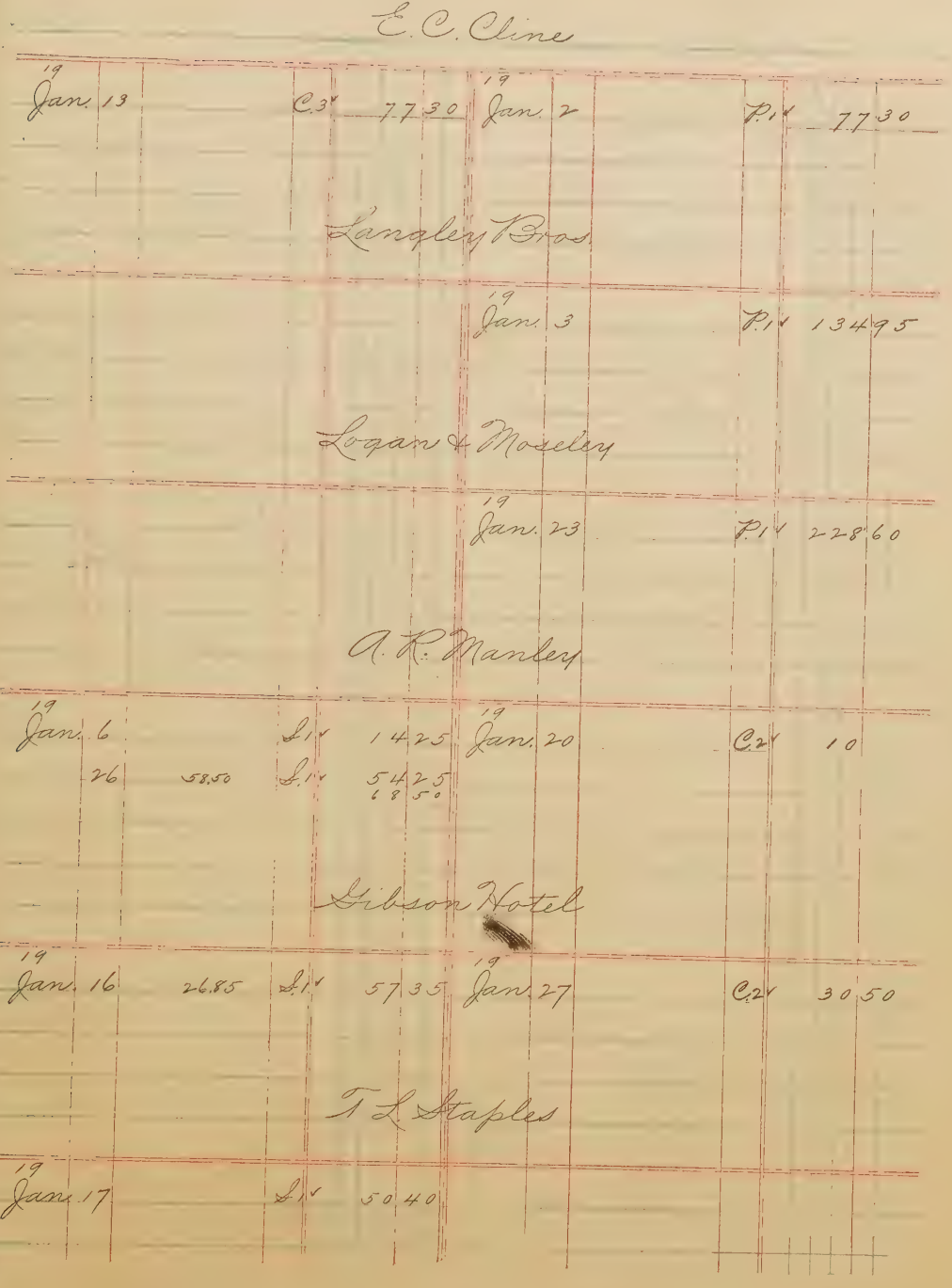


Illustration No. 13, Ledger Accounts for Exercise No. 23—*Concluded.*

Explanation: These accounts and those on the opposite page are the result of posting the entries in Illustrations Nos. 9, 10, 11 and 12.

§ 66. **A Trial Balance** is a list of the open accounts in the ledger with the balance or the total debits and credits set opposite the name of each account. In practice it is customary to use the balance of the real accounts (§ 24, ¶ 1) and the total debits and credits of the nominal accounts (§ 24, ¶ 2).

¶ 1. *Reason for Taking a Trial Balance.* In double entry bookkeeping each transaction involves a debit and a credit entry of the same amount. If all the debits in the books of original entry are posted to the debit side of the accounts involved in the ledger, and all the credits in the books of original entry to the credit side of the accounts involved in the ledger, the total debits and the total credits of all the ledger accounts must be equal. When this is the condition, the ledger is said to be in balance. Careful posting and checking are indications to the bookkeeper that his ledger is in balance, but as the experienced bookkeeper knows, and as the student will learn, these are not absolute evidence. There is a possibility of making an error in posting and not detecting it by checking, or of making a mistake in the addition of those accounts that have more than one amount on the debit or credit side. For these and other reasons which are explained later, there must be some additional proof that the ledger is in balance. To obtain this proof a Trial Balance is taken, usually at the end of each month.

¶ 2. *Method of Taking a Trial Balance.* The Trial Balance is made by listing on a sheet of journal paper the open accounts in the order in which they appear in the ledger. Prior to listing, each account that has more than one amount on the debit or credit side should be footed and the total entered in small pencil figures. If the balance of real accounts is to be used, the difference between the two sides should be entered in the explanation column on the larger side. After all the accounts together with the amounts are listed, the total debits should equal the total credits. If they are not equal, it will be necessary to verify the addition of the Trial Balance, the additions and subtractions in the ledger, and check the listing, and the posting. When the totals are equal, the Trial Balance is ruled with single and double red lines and footed with black ink as in Illustration No. 14.

Trial Balance, January

		Debit	Credit
1	E. B. Taylor, Capital		1000
1	Cash	823 55	
1	Purchases	632 85	
1	Sales		248 60
1	Expense	20	
2	Langley Bros.		134 95
2	Logan & Moseley		228 60
2	A. R. Manley	58 50	
2	Gibson Hotel	26 85	
2	T. L. Staples	50 40	
		1612 15	1612 15
		1612 15	1612 15

Illustration No. 14, Trial Balance for Exercise No. 23.

Explanation: This Trial Balance is prepared from the ledger accounts in Illustration No. 13 on pages 40 and 41. The figures at the left of the names indicate the ledger pages.

EXERCISES IN RECORDING TRANSACTIONS IN THE PURCHASES, SALES, AND CASH BOOKS, POSTING AND TAKING A TRIAL BALANCE.

The student is required to (*a*) *record* the transactions for Exercises Nos. 23, 24, 25 and 26, in the purchases book, sales book, and cash book, (*b*) *post* to the ledger, and (*c*) take a *Trial Balance*. Illustrations Nos. 9, 10, 11 and 12 show the correct record for the transactions in Exercise No. 23; Illustration No. 13, the ledger accounts resulting from posting these; and Illustration No. 14, the Trial Balance. The transactions are not recorded in the regular books of account, but on loose journal and ledger paper.

Exercise No. 23. E. B. Taylor, Proprietor.

Rule an extra column at the left of pages 2 and 3 of a double sheet of journal paper as in Illustrations Nos. 11 and 12. Use page 1 for the purchases book, pages 2 and 3 for the cash book, and page 4 for the sales book. Write the headings in the cash book as those above the red lines in Illustrations Nos. 11 and 12.

Jan. 1. E. B. Taylor invests $1,000.00 in the grocery business.
Enter on the debit side of the cash book (§ 62, ¶ 1) as in the first entry in Illustration No. 11, except the ledger page, which is omitted in this and succeeding entries.

2. Bought of E. C. Cline, on account, merchandise per invoice of the 1st, $77.30.
Enter in the purchases book (§ 60, ¶ 1) as in the first entry in Illustration No. 9.

3. Bought of Langley Bros., on account, merchandise per invoice of the 2d, $134.95.
Enter in the purchases book (§ 60, ¶ 1) as in the second entry in Illustration No. 9.

4. Paid $20.00, city and state license for one year.
Enter on the credit side of the cash book as in the first entry in Illustration No. 12.

6. Sold A. R. Manley, on account, 40 lbs. Arbuckle coffee at 20c; 1 bbl. White Lily flour, $6.25.
Enter in the sales book (§ 61, ¶ 1) as in the first entry in Illustration No. 10.

10. Paid J. F. Sherwood $192.00 for merchandise per invoice of this date
Enter as in the second entry in Illustration No. 12.

12. Received $30.50 for sundry cash sales.
Enter as in the second entry in Illustration No. 11.

13. Paid E. C. Cline $77.30, in full of account.

16. Sold Gibson Hotel, on account, 6 bbls. Roller King flour at $5.10; 3 bbls. White Lily flour at $6.25; 40 lbs. Arbuckle coffee at 20c.
Enter in the sales book as in the second entry in Illustration No. 10.

17. Sold T. L. Staples, on account, 4 bbls. Roller King flour at $5.10; 4 cans, 200 lbs., lard at 15c.

20. Received of A. R. Manley $10.00, to apply on account.

23. Bought of Logan & Moseley, on account, merchandise per invoice of this date, $228.60.

26. Sold A. R. Manley, on account, 5 bbls. White Lily flour at $6.25; 115 lbs. Arbuckle coffee at 20c.

27. Received of the Gibson Hotel $30.50, to apply on account.

30. Received $41.85 for sundry cash sales.

After the transactions have been recorded, proceed as follows:

1st. Prove cash (§ 62, ¶ 3) and rule the cash book as in Illustrations Nos. 11 and 12.

2d. Divide the first page of a sheet of ledger paper into five parts by ruling double red lines similar to those in Illustration No. 13, page 40. Open accounts with E. B. Taylor Capital, Cash, Purchases, Sales, and Expense by writing the names on the blue line above the red lines as in the illustration. Do not enter any amounts until instructed. Divide the second page of this ledger sheet into six equal parts with double red lines similar to those in Illustration No. 13, page 41. Open accounts with E. C. Cline, Langley Bros., A. R. Manley, Gibson Hotel, T. L. Staples, and Logan & Moseley by writing each name on the blue line above the red line as in the illustration.

3d. Trace the posting of the entries in Illustrations Nos. 9, 10, 11 and 12 to the accounts on pages 40 and 41, Illustration No. 13. When this is understood, follow instructions given at the top of the next page.

4th. Foot and rule the purchases book as in Illustration No. 9. Post the first three entries to the credit side of the respective accounts in the ledger as explained in § 60, ¶ 2; post the total (§ 60, ¶ 3) to the debit side of the Purchases account. Note that the three amounts posted to the credit side of the accounts equal the one amount posted to the debit side of the Purchases account.

5th. Foot and rule the sales book as in Illustration No. 10. Post the first four entries to the debit side of the respective accounts in the ledger as explained in § 61, ¶ 2; post the total (§ 61, ¶ 3) to the credit side of the Sales account. Note that the four amounts posted to the debit side of the accounts equal the one amount posted to the credit side of the Sales account.

6th. Post the first five entries on the debit side of the cash book to the credit side of the respective accounts in the ledger as explained in § 62, ¶ 5; post the total (§ 62, ¶ 7) to the debit side of the Cash account in the ledger. Note that the five amounts posted to the credit side of the accounts equal the one amount posted to the debit side of the Cash account.

7th. Post the first three entries on the credit side of the cash book to the debit side of the respective accounts in the ledger as explained in § 62, ¶ 6; post the total (§ 62, ¶ 7) to the credit side of the Cash account in the ledger. Rule E. C. Cline's account as in the illustration at the top of page 41. Note that the three amounts posted to the debit side of the accounts equal the one amount posted to the credit side of the Cash account.

8th. Enter the balance on the credit side of the Cash account, rule the account, and carry the balance down on the debit side below the ruling as in Illustration No. 13.

9th. Check all posting as explained in § 64.

10th. Take a Trial Balance as explained in § 66 and Illustration No. 14.

11th. Present all work for approval. When approved proceed with Exercise No. 24.

Exercise No. 24. Donald D. Sells, Proprietor.

Prepare on a double sheet of journal paper a purchases book, sales book, and cash book in the same manner as instructed at the beginning of Exercise No. 23, and record on it the transactions for this exercise in the order in which they occur.

Feb. 1. Donald D. Sells invests $3,000.00 cash in the hardware business.
Enter on the debit side of the cash book as in Illustration No. 11.

2. Bought from Moore & Moore, on account, merchandise per invoice of this date, $187.65.
Enter in the purchases book as in Illustration No. 9.

3. Sold J. C. Mason, on account, 4 kegs nails at $4.50.
Enter in the sales book as in Illustration No. 10.

4. Paid Davis Bros. $281.36 for cash purchase of merchandise.
Enter on the credit side of the cash book as in Illustration No. 12.

5. Paid $25.00, telephone rent.

6. Bought from Pickering Hardware Co., on account, merchandise per invoice of this date, $321.97.

7. Paid Moore & Moore $100.00, on account.

8. Received $116.50 for a cash sale.

9. Sold Walter Love, on account, 1 saw, $5.00; 1 corn sheller, $37.25.

10. Bought from Johnson Bros., on account, merchandise per invoice of this date, $261.85.

Received $18.00 from J. C. Mason, in full of account.

11. Paid Moore & Moore $87.65, in full of account.

12. Sold J. C. Miller, on account, 100 lbs. lead at 5c; 4 doz. picks at $9.00.

13. Received $106.95 for cash sales.

15. Received $20.00 from Walter Love to apply on account.

16. Paid clerk's salary, $10.00.

17. Bought merchandise from Donelson Bros., on account, $321.85.

18. Sold Central Construction Co., on account, 3 doz. shovels at $7.00; 5 doz. picks at $9.00; 6 scrapers at $32.50.

19. Paid Pickering Hardware Co. $321.97, in full of account.

20. Paid Johnson Bros. $150.00, on account.

22. Received $125.25 for cash sales.

23. Sold Walter Love, on account, one Studebaker wagon, $85.00.

24. Paid Johnson Bros. $100.00, to apply on account.

(*Concluded on page 45.*)

(*Exercise No. 24—Continued from page 44.*)

Feb. 25. Paid $30.00 for rent.
26. Received $22.25 from Walter Love in full of bill sold on the 9th.
27. Received for cash sales to date $121.85.

1st. Prove cash (balance $2,424.82) and rule the cash book as in Illustrations Nos. 11 and 12.
2d. On a sheet of ledger paper, open accounts as follows, allowing the space specified: Donald D. Sells, five lines; Cash, five lines; Purchases, six lines; Sales, ten lines; Expense, four lines; account with each creditor or customer, five lines. Double red lines on the blue line below the line on which the name of the account is written will add to the appearance.
3d. Foot and rule the purchases and sales books. Post from the purchases, sales and cash books as explained in paragraphs 4, 5, 6 and 7 at the top of page 44.
4th. Check the posting (§ 64), and take a Trial Balance (§ 66).
5th. Present work for approval. When approved proceed with Exercise No. 25.

Exercise No. 25. H. A. Popp, Proprietor.

Prepare on a double sheet of journal paper a purchases book, sales book, and cash book for this exercise in the same manner as instructed at the beginning of Exercise No. 23.

Mar. 1. H. A. Popp invests $1,000.00 cash in the retail coal business.
2. Bought from Central Coal Co., on account, merchandise per invoice of this date, $250.00 (§ 50).
3. Sold J. C. Miller, on account, 5 tons lump coal at $5.50, 5 tons nut coal at $5.00 (§ 50).
4. Bought from Davis Coal Co., on account, merchandise per invoice of the 1st, $175.50.
5. Paid $10.00 for telephone service (§ 52).
6. Bought from Jellico Coal Co., on account, merchandise per invoice of this date, $362.75.
8. Paid Central Coal Co. $100.00, on account (§ 51).
9. Sold Walter Love, on account, 5 tons nut coal at $5.00; 1 ton lump coal, $5.50 (§ 50).
10. Received for sundry cash sales, $151.05 (§ 49).
11. Sold Central Hotel, on account, 50 tons nut coal at $4.85.
12. Paid Central Coal Co. $150.00, in full of account.
13. Sold J. C. Miller, on account, 3 tons lump coal at $5.50.
15. Cash sales to date, $122.00.
16. Received $20.00 from Walter Love, on account.
17. Paid clerk's salary for first half of month, $25.00 (§ 52).
18. Bought from Donaldson Coal Co., for cash, 100 tons coal at $4.00.
20. Paid Jellico Coal Co. $150.00, on account.
22. Received $10.50 from Walter Love in full of bill sold on the 9th.
23. Sold Central Hotel, on account, 5 tons lump coal at $5.50.
24. Bought from Davis Coal Co., on account, merchandise per invoice of the 22d, $209.38.
25. Received for sundry cash sales, $135.65.
26. Sold Walter Love, on account, 2 tons nut coal at $5.00.
27. Received $200.00 from Central Hotel to apply on account.
29. Sold J. C. Miller, on account, 8 tons nut coal at $5.00.
30. Received for sundry cash sales, $192.80.
31. Paid rent, $40.00, and clerk hire, $25.00.

1st. Prove cash and rule the cash book; cash balance, $932.00.
2d. On a sheet of ledger paper, open accounts as follows, allowing the space specified: H. A. Popp, Capital, five lines; Cash, five lines; Purchases, five lines; Sales, ten lines; Expense, four lines; account with each creditor or customer, five lines.
3d. Foot and rule the purchases and sales books. Post from the purchases, sales and cash books as explained in paragraphs 4, 5, 6 and 7 at the top of page 44.
4th. Take a Trial Balance.
5th. Present work for approval. When approved proceed with Exercise No. 26.

Exercise No. 26. J. N. Fulton, Proprietor.

Prepare on a double sheet of journal paper a purchases book, sales book, and cash book for this exercise in the same manner as instructed at the beginning of Exercise No. 23.

Apr. 1. J. N. Fulton invests $1,500.00 in the retail shoe business.
2. Bought from Union Shoe Co., on account, invoice of shoes, $681.70.
3. Paid $25.00 cash for telephone service.
4. Sold Davis Bros., on account, 10 pairs men's brogans at $1.25.
5. Paid $365.87 for cash purchase of shoes.
8. Received for cash sales to date, $158.70.
9. Bought from the Hamilton Brown Shoe Co., on account, invoice of shoes, $962.48.
11. Sold Arthur Ogden, on account, 3 pairs children's shoes at $1.25, 1 pair men's satin calf, $5.00.
12. Paid $37.50 insurance on stock and fixtures (§ 43, ¶ 1).
15. Paid Union Shoe Co. $381.70, on account.
16. Bought from Overton Shoe Co., on account, invoice of shoes, $468.42.
17. Paid $25.00 for stamps and stationery.
18. Received for cash sales to date, $181.90.
19. Sold Caleb Fall, on account, 4 pairs ladies' shoes, $3.40.
20. Sold Jacob Dolittle, on account, 5 pairs men's shoes at $3.00; 4 pairs women's shoes at $2.50; 6 pairs children's shoes at 90c.
22. Paid $400.00 to Hamilton Brown Shoe Co., on account.
23. Sold Joe Smith, for cash, 6 pairs children's shoes at 95c; 1 pair men's shoes, $4.00; 6 pairs ladies' bals. at $2.25.

Enter in the sales book and cash book (§ 61, ¶ 4) but do not open an account with Joe Smith.

24. Paid $35.00 rent for the month.
25. Received for cash sales to date, $206.10.
26. Bought for cash, invoice of shoes, $269.87.
27. Received $15.00 from Jacob Dolittle on account.
29. Sold A. J. Bowen, on account, 5 pairs men's shoes at $4.30.
30. Received $10.00 from Caleb Fall on account.
Paid bookkeeper's and clerk's salaries, $55.00.

Prove cash (cash balance, $499.96), rule the cash book, post, and take a Trial Balance.

QUESTIONS.

1. Give the general rule for determining debits and credits. (§ 47.)
2. Define books of account. (§ 54.)
3. What are books of original entry? (§ 55.) Books of classified accounts? (§ 56.)
4. Define auxiliary books. (§ 57.)
5. Define posting. (§ 58.)
6. Define the journal and state the method of recording transactions in it. (§ 59.)
7. Define the purchases book. (§ 60.)
8. Define the sales book. (§ 61.)
9. Define the cash book. (§ 62.)
10. Distinguish between the debit and credit side. (§ 62, ¶¶ 1 and 2.)
11. Describe the method of proving cash. (§ 62, ¶ 3.)
12. How and when is the cash book ruled? (§ 62, ¶ 4.)
13. Describe the method of posting from the cash book. (§ 62, ¶¶ 5 and 6.)
14. Is it necessary to post the totals? (§ 62, ¶ 7.)
15. How are the totals posted?
16. Define the ledger and state its purpose. (§ 63.)
17. What is the purpose of checking the posting? (§ 64.)
18. Give the order of posting from the books of original entry. (§ 65.)
19. Define the Trial Balance. (§ 66.)
20. What is the reason for taking a Trial Balance?

INTRODUCTORY SET.

RETAIL GROCERY BUSINESS, W. H. GOODWIN, PROPRIETOR.

JANUARY.

§ 67. **Introduction.** The object of this set is to illustrate the application of the principles of accounting and the method of recording transactions in a business conducted by an individual or sole proprietor. The transactions are recorded in the books of account which consist of the purchases book, sales book, cash book, and journal. In addition to the use of these books, the student is taught to make bills, write receipts, prepare a statement of the business, and close the ledger.

The bookkeeping terms (§§ 1–31), the accounts made necessary by the transactions in January, the first month (§§ 32–44), and the principles involved in recording transactions and posting (§§ 45–66), are explained in the preceding pages. The discussion on pages 47–70 relate to the business forms, method of recording transactions, Trial Balance, Balance Sheet, Profit and Loss statement, and ledger closing required in the January work. Reference is given to this information in connection with recording the transactions for January.

The Transactions to be Recorded are separate from the discussion of the principles (§§ 1–120) and may be represented by incoming vouchers (reproduced business papers), or a printed record similar in form to Exercises Nos. 22–26. The final results are the same with either method.

GENERAL INFORMATION.

§ 68. **Business Papers** are, aside from the personal instructions of his employer, the only evidence to the bookkeeper that a transaction has been made. They consist of bills or invoices, receipts, checks, notes, drafts, orders, statements, shipping invoices, account of sales, telegrams, etc. The use of each will be explained as it is introduced. In January only two are used, bills or invoices, and receipts.

§ 69. **Bills or Invoices.** When goods are purchased or services rendered, the written statement, describing the same and showing the value, is called a bill or an invoice. These terms are used interchangeably; that is, sometimes a list of items bought is called a bill and sometimes an invoice. To avoid confusion, in the instructions in this work, the list of goods *purchased* by the proprietor will be termed an *invoice*, and that of goods *sold* by him, a *bill*.

A bill is rendered that the purchaser may know that all of the goods ordered have been received, and that the calculations relative to their value have been made correctly. It should show the name of the seller, the date, the name of the purchaser and his address, the terms, a description of the goods, the value of each item, and the total. In all calculations where the result is a fraction of one cent, the fraction is regarded as a cent if its value is one-half or more; if less than one-half it is discarded. See Illustration No. 15 for the form of a bill.

¶ 1. *Terms* refer to the time payment is to be received. When no fixed time of payment is mentioned, the sale or purchase is said to be "on account". Legally the account is due and could be collected but custom has placed the time of payment

as the first of the following month. When the time of payment is mentioned this is indicated in the terms. Terms "60 days" means that the time of payment is 60 days from the date of the bill or invoice.

W. H. GOODWIN

DEALER IN

Fancy Groceries, Provisions and Country Produce.

Jan. 4, 19

Sold to A. R. Jennings

Terms account City

Quantity	Items	Price	Dollars	Cts.	Total	
11	lbs. Arbuckle Coffee	20	2	20		
50	" Gran. Sugar	06	3			
25	" Brown "	05	1	25		
60	" Bacon	13	7	80	14	25

Illustration No. 15, Bill for Sale, January 4, Introductory Set.

§ 70. Receipt. A receipt is a written acknowledgment from the receiver to the giver, of money or other property received in payment for some form of indebtedness. It is not customary to give receipts when the property is paid for at the time of the purchase. Receipts should be bound in book form, and each one provided with a stub, so that a permanent record of each receipt issued may be kept. The stub should be filled out first in order that it may not be forgotten or filled out incorrectly.

No. 1

Date Jan. 9, 19

To A. R. Jennings

For Account

Amount $ 10.88

No. 1 January 9, 19

Received of A. R. Jennings

Ten ——— 88/100 Dollars

On account

$ 10.88 W. H. Goodwin

By Student

Illustration No. 16, Receipt given A. R. Jennings, January 9, Introductory Set.

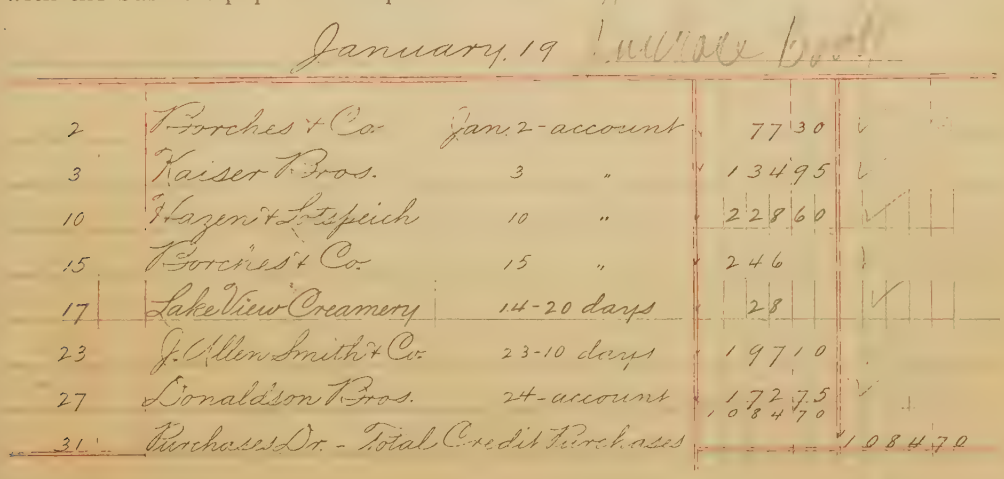
§ 71. Duties of a Bookkeeper. In general it is the duty of the bookkeeper to audit incoming papers, write outgoing papers, make a record of the transactions, post these to the ledger, take a Trial Balance, make a Statement of the Business and close the ledger. The efficient bookkeeper must be accurate, rapid in making calculations and have a thorough knowledge of the principles of bookkeeping and accounting.

§ 72. Auditing Incoming Papers. The efficient bookkeeper will not accept a business paper as correct until he has proved it by a careful audit. The fact that an invoice is made out in correct form does not indicate that the extensions are correct. The same is true of checks, notes, drafts, freight bills and other business papers which represent transactions. An audit of a business paper is indicated by check marks to the left or right of the figures, and also by the name or initial of the person making the audit.

§ 73. Writing Outgoing Papers. Each sale requires a bill, and, unless a bill clerk is employed, it is the duty of the bookkeeper to make this. He may also be required to write checks, notes and other business papers.

§ 74. License. The advantages and protection of modern civilization do not come free of charge to those who have property. The expenses of the government must be paid, and to do this, taxes are levied. There are two methods of taxation; one by charging a certain per cent of the value of the property, and the other by charging for certain privileges. The latter is termed "License," and is a charge paid by those who engage in business. Licenses are granted by an incorporated city, a county, a state, or the United States government.

§ 75. Files. Every well-regulated business office is equipped with filing devices in which to file incoming papers and copies of outgoing papers. These are filed alphabetically or numerically, thus providing a ready reference when needed. The correct filing of business papers is essential to the success of the business. The auditor will expect the bookkeeper to substantiate each transaction with the business paper that represents it.



January, 19 — Purchase Book

2	Forches & Co.	Jan. 2 - account	77 30
3	Kaiser Bros.	3 "	134 95
10	Hazen & Lepsich	10 "	228 60
15	Forches & Co.	15 "	246
17	Lake View Creamery	14-20 days	28
23	J. Allen Smith & Co.	23-10 days	197 10
27	Donaldson Bros.	24 - account	172 75
			1084 70
31	Purchases Dr. - Total Credit Purchases		1084 70

Illustration No. 17, Purchases Book, January, Introductory Set.

Explanation: This illustration is the record of the credit purchases for the first month of the Introductory Set, also for Exercise No. 27 on page 50. The method of posting from the purchases book is explained in § 60, ¶ 2, and the result of posting the above entries is shown in the credits to the personal accounts at the top of page 58.

Exercises in the Purchases Book. Prepare on journal paper a purchases book for each of the three exercises, Nos. 27, 28 and 29. Exercise No. 27 is the same as Illustration No. 17. Follow instructions given at the close of each exercise relative to posting and taking a Trial Balance.

Exercise No. 27, Purchases Book.

W. H. Goodwin received invoices for the following credit purchases of merchandise during the month of January:

2. Borches & Co., Jan. 2, on account, $77.30 (§ 60, ¶ 1).
3. Kaiser Bros., Jan. 3, on account, $134.95.
10. Hazen & Lotspeich, Jan. 10, on account, $228.60.
15. Borches & Co., Jan. 15, on account, $246.00.
17. Lake View Creamery, Jan 14, 20 days, $28.00.
23. J. Allen Smith & Co., Jan. 23, 10 days, $197.10.
27. Donaldson Bros., Jan. 24, on account, $172.75.

Post (§ 60, ¶¶ 2 and 3) to a sheet of ledger paper (see pages 58 and 57), take a Trial Balance, and present all work for approval.

Exercise No. 28, Purchases Book.

E. K. Isaacs received invoices for the following credit purchases of merchandise during the month of February:

1. B. A. Ames, Feb. 1, 30 days, $350.00; J. H. King, Feb. 1, 60 days, $286.00.
3. H. M. Lowe, Feb. 1, 30 days, $325.00.
5. H. T. Harris, Feb. 5, 20 days, $486.00; P. T. Pilser, Feb. 3, 30 days, $210.00.
9. J. T. Goodrich, Feb. 7, 90 days, $825.00.
11. J. P. Benson, Feb. 10, 60 days, $64.00.
12. C. O. Parsons, Feb. 12, 30 days, $128.00.
15. H. L. Simpson, Feb. 13, 30 days, $242.00.

Post (§ 60, ¶¶ 2 and 3) to a sheet of ledger paper, (allow five lines for each account) take a Trial Balance, and present all work for approval.

Exercise No. 29, Purchases Book.

C. U. Steele received invoices for the following credit purchases of shoes for the month of March:

2. Bay State Shoe Co., Feb. 28, 10 days, $496.81.
3. Haynes, Henson & Co., Mar. 2, 10 days, $387.65.
4. M. B. Lang, Mar. 3, 30 days, $1,691.42.
6. Cline Shoe Co., Mar. 4, 30 days, $168.42.
18. Bay State Shoe Co., Mar. 15, 30 days, $987.35.
25. Haynes, Henson & Co., Mar. 20, 30 days, $462.85.
26. Cline Shoe Co., Mar. 20, 30 days, $785.00.
31. A. O. Haines, Mar. 21, 60 days, $432.50; M. B. Lang, Mar. 22, 30 days, $356.00.

Post to the third page of a double sheet of ledger paper; allow one-fifth of a page for each account. When each creditor has been credited with the amount of his purchase, post (§ 60, ¶ 3) the total to the Purchases account; open the Purchases account at the top of page two of the ledger sheet. Take a Trial Balance and retain the exercise until Nos. 32 and 35 have been completed.

Exercises in the Sales Book. Prepare on journal paper a sales book for each of the three exercises, Nos. 30-32. Exercise No. 30 is the same as Illustration No. 18. Follow instructions given at the close of each exercise relative to posting.

Exercise No. 30, Sales Book.

W. H. Goodwin made the following credit sales during the month of January;

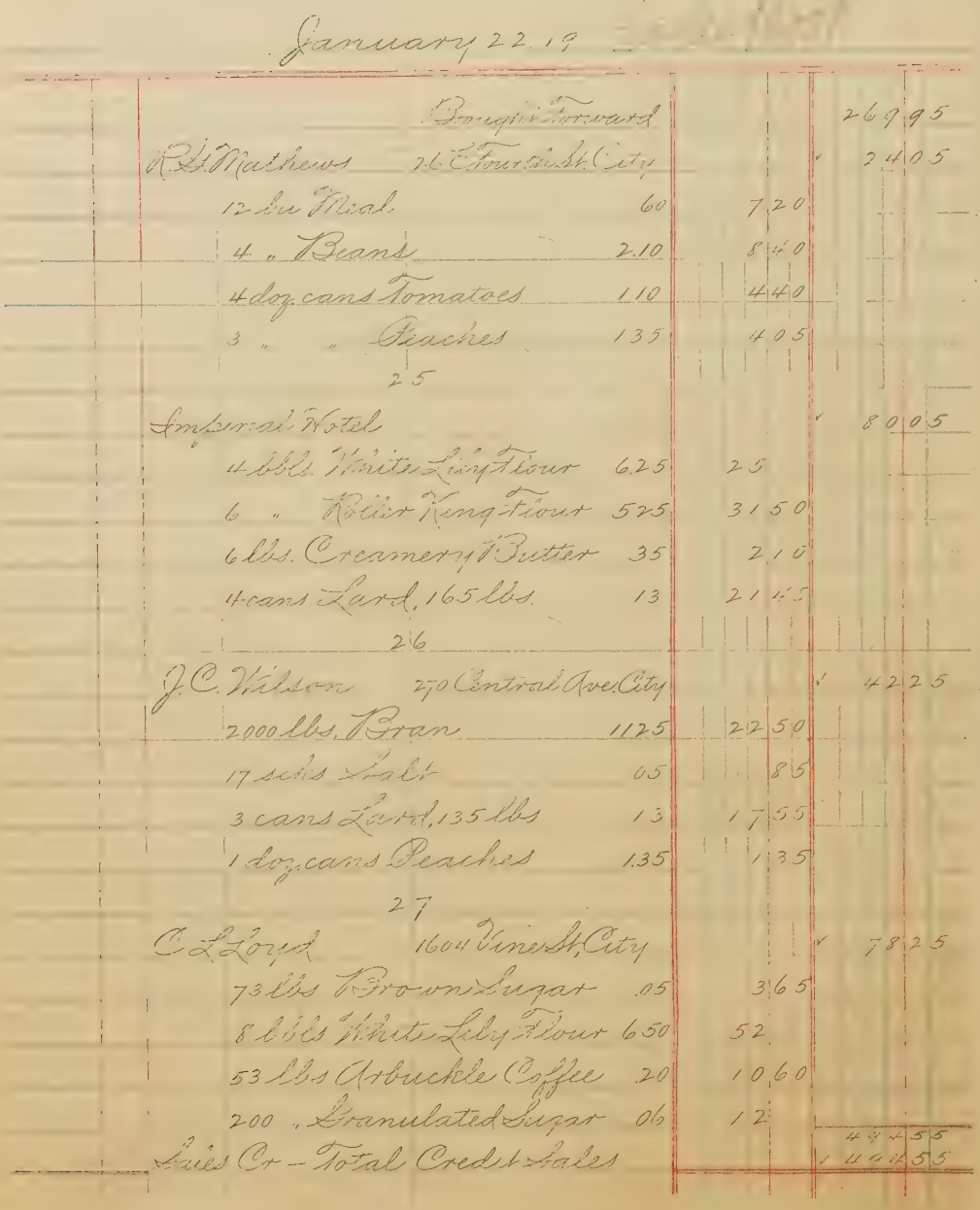
4. A. R. Jennings, 105 Main St., City, 11 lbs. Arbuckle coffee at 20c; 50 lbs. granulated sugar at 6c; 25 lbs. brown sugar at 5c; 60 lbs. bacon at 13c.

(*Concluded on page 53.*)

January 4, 19..

R. K. Jennings 105 Main St. City			14 25
11 lbs Crinchle Coffee	.20	2 20	
50 " Granulated Sugar	.06	3	
25 " Brown Sugar	05	1 25	
60 " Bacon	.13	7 80	
8			
Central Hotel 22 Walnut St. City			57 35
5 bbls. Roller King Flour	5.10	25 50	
3 " White Lily Flour	6.25	18 75	
3 Hams, 45 lbs.	.13	5 85	
100 lbs. Granulated Sugar	.06	6	
25 lbs. Salt	.05	1 25	
11			
C. K. Jennings			54 25
1 doz. cans Tomatoes		1 10	
4 cans Lard, 216½ lbs.	.13	28 15	
4 bbls. White Lily Flour	6.25	25	
13			
M. A. Johnson Kingston			52 40
5 bbls. White Lily Flour	6.25	31 25	
6 Hams, 141 lbs.	.15	21 15	
16			
Imperial Hotel 200 Locust St. City			49 40
4 bbls Roller King Flour	5.10	20 40	
20 Shoulders, 290 lbs.	.10	29	
19			
A. C. Williams 1221 Elm St. City			42 30
14 doz. cans Peaches	135	18 90	
2080 lbs. Bran	11.25	23 40	
			269 95
Carried Forward			269 95

Illustration No. 18, Sales Book, January 1–19, Introductory Set—*Continued.*



January 22, 19

	Brought Forward			26 9 95
R. L. Mathews	26 E. Fourth St. City			24 05
12 lbs Meal	60	7 20		
4 " Beans	2.10	8 40		
4 doz. cans Tomatoes	1.10	4 40		
3 " " Peaches	1.35	4 05		
25				
Imperial Hotel				80 05
4 bbls White Lily Flour	6.25	25		
6 " Roller King Flour	5.25	31 50		
6 lbs. Creamery Butter	35	2 10		
4 cans Lard, 165 lbs.	13	21 45		
26				
J. C. Wilson	270 Central Ave. City			42 25
2000 lbs. Bran	1.125	22 50		
17 sks Salt	05	85		
3 cans Lard, 135 lbs	13	17 55		
1 doz. cans Peaches	1.35	1 35		
27				
C. L. Loyd	1604 Vine St. City			78 25
73 lbs Brown Sugar	.05	3 65		
8 bbls White Lily Flour	6.50	52		
53 lbs Arbuckle Coffee	.20	10 60		
200 " Granulated Sugar	06	12		
			4 8 4 55	
Sales Cr — Total Credit Sales			4 8 4 55	

Illustration No. 18, Sales Book, January 22–31, Introductory Set—*Concluded.*

Explanation: This illustration (pages 51 and 52) is the record of the credit sales for the first month of the Introductory Set (with the exception of some of the articles sold), also for Exercise No. 30 beginning on page 50. The method of posting from the sales book is explained in § 61, ¶ 2, and the result of posting these entries is shown by the debits to the personal accounts on page 59 and the last account at the bottom of page 58.

(*Exercise No. 30—Continued from page 50.*)

8. Central Hotel, 22 Walnut St., 5 bbls. Roller King flour at $5.10; 3 bbls. White Lily flour at $6.25; 3 hams, 45 lbs. at 13c; 100 lbs. granulated sugar at 6c; 25 scks. salt at 5c.
11. A. R. Jennings, 1 doz. cans tomatoes, $1.10; 4 cans lard, 216½ lbs. at 13c; 4 bbls. White Lily flour at $6.25.
13. M. A. Johnson, Kingston, 5 bbls. White Lily flour at $6.25; 6 hams, 141 lbs. at 15c.
16. Imperial Hotel, 200 Locust St., 4 bbls. Roller King flour at $5.10; 20 shoulders, 290 lbs. at 10c.
19. A. C. Williams, 1221 Elm St., 14 doz. cans peaches at $1.35; 2080 lbs. bran at $11.25 per 1,000 lbs.
22. R. G. Mathews, 26 E. Fourth St., 12 bu. meal at 60c; 4 bu. beans at $2.10; 4 doz. cans tomatoes at $1.10; 3 doz. cans peaches at $1.35.
25. Imperial Hotel, 4 bbls. White Lily flour at $6.25; 6 bbls. Roller King flour at $5.25; 6 lbs. creamery butter at 35c; 4 cans lard, 165 lbs. at 13c.
26. J. C. Wilson, 270 Central Ave., 2000 lbs. bran at $11.25 per 1000 lbs.; 17 scks. salt at 5c; 3 cans lard, 135 lbs. at 13c; 1 doz. cans peaches, $1.35.
27. C. L. Loyd, 1604 Vine St., 73 lbs. brown sugar at 5c; 8 bbls. White Lily flour at $6.50; 53 lbs. Arbuckle coffee at 20c; 200 lbs. granulated sugar at 6c.

Post (§ 61, ¶¶ 2 and 3) to a sheet of ledger paper (see pages 59 and 57), take a Trial Balance, and present for approval.

Exercise No. 31, Sales Book.

W. J. Wheeler made the following credit sales during the month of February:

3. E. M. Miller, 507 Gay St., 50 bbls. flour at $4.50.
8. William A. Wallace, Evanston, 50 bbls. flour at $4.50; 200 bu. corn at 40c.
12. B. T. Hart & Co., Maryville, 25 bbls. flour at $4.50; 485 bu. corn at 40c.
14. D. T. Sinton, Uniontown, 200 bu. oats at 36c.
18. G. L. Frye, 29 Main St., 900 bu. rye at 60c; 500 bu. oats at 36c.
20. Rue & Long, 54 Union St., 250 bu. rye at 57c; 600 bu. corn at 35c.
23. Henry Mason, Pittsburg, 100 bu. corn at 45c; 60 bbls. flour at $5.00.
27. D. P. Lewis, 310 Chestnut St., 500 bu. oats at 38c; 50 bu. rye at 60c.
28. Maynard Pritchett, Brookville, 300 bu. corn at 40c; 400 bu. oats at 38c.

Post (§ 61, ¶¶ 2 and 3) to a sheet of ledger paper, take a Trial Balance, and present for approval.

Exercise No. 32, Sales Book.

C. U. Steele made the following credit sales during the month of March:

1. R. L. Watson, 207 Mason St., 1 pr. Queen City shoes, $7.50.
4. C. A. Sheppard, Canton, 3 prs. Ladies' shoes at $1.50; 1 pr. rubbers, 75c.
9. J. C. Wilson & Co., Hamilton, 8 prs. Men's Calf shoes at $1.25; 14 prs. Men's Jefferson shoes at $1.65.
12. A. R. King, Boston, 1 pr. Ladies' Bal. at $2.50.
15. W. E. Peters, Clinton, 1 pr. Men's Vici Autocrat shoes, $9.15.
18. W. K. Love, 207 Main St., 1 pr. Men's Vici Kid shoes, $8.45.
21. A. R. King, 1 pr. Women's Box Calf, $2.50; 1 pr. Boy's Box Calf, $2.50.
26. C. A. Sheppard, 1 pr. Men's Cong. Calf, $6.00.
30. R. L. Watson, 6 prs. Child's Satin Calf, at $1.15.

Post (§ 61, ¶ 2) to the fourth page of the double sheet of ledger paper used in posting Exercise No. 29. Allow one-sixth of a page for each account. When each customer has been debited with the amount of his purchase, post (§ 61, ¶ 3) the total to the Sales account; open the Sales account ten lines from the top of page two of the ledger sheet. Take a Trial Balance from the accounts on the sheet, and retain the exercise until No. 35 has been completed.

Cash

Receipts

19			(Accounts Credited)	(Explanation)						
Jan.	1		W. H. Goodwin, Capital	Investment		2000				
	6		Sales	Cash sales	✓	30				
	9	✓	A. R. Jennings	On account	✓	10				
	12		Central Hotel	" "	✓	30				
	13		Sales	Cash sales	✓	40				
				17 20 70		1110				
	18		M. A. Johnson	On account	✓	35				
	20		Sales	Cash sales	✓	50				
	24		Central Hotel	On account	✓	15				
	26		A. R. Jennings	" "	✓	4	25			
	27		Sales	Cash sales	✓	42	50			
	29		C. L. Loyd	On account	✓	50				
						3306	75			
	31		Cash, Dr.	Total receipts					2306	75
									2306	75
Feb.	1		Balance	On hand					1547	50

Illustration No. 19, Debit Side of Cash Book, January, Introductory Set.

Explanation: This illustration is the record of the cash receipts in the first month of the Introductory Set, also the cash receipts outlined in Exercise No. 33 below. The method of posting from the debit side of the cash book is explained in § 62, ¶ 5, and the result of posting these entries is shown by the credits to the various accounts on pages 57, 58, and 59, except the posting from the purchases book and the total of the sales book.

Exercises in the Cash Book. Rule the inside page of a double sheet of journal paper similar to Illustrations Nos. 19 and 20 and prepare a cash book for each of the three exercises, Nos. 33, 34 and 35. Exercise No. 33 is the same as Illustrations Nos. 19 and 20. Follow instructions given at the close of each exercise relative to posting. In Exercises Nos. 33 and 34, the name of the account debited or credited is printed in italics.

Exercise No. 33, Cash Book.

Jan. 1. *W. H. Goodwin* invested $2,000.00 in cash (§ 62, ¶ 1).
4. Paid $20.00 for city license (*Expense*) (§ 62, ¶ 2).
5. Paid City Milling Co. $192.00 for a cash *purchase* (§ 62, ¶ 2).
6. Received for cash *sales*, $30.00 (§ 62, ¶ 1).
Paid *Borches & Co.* $77.30, in full of account (§ 62, ¶ 2).
9. Received $10.00 from *A. R. Jennings* to apply on account (§ 62, ¶ 1).
12. Received $30.00 from *Central Hotel* to apply on account (§ 62, ¶ 1).
13. Received for cash *sales*, $40.00 (§ 62, ¶ 1).
Paid *Kaiser Bros.* $100.00 to apply on account (§ 62, ¶ 2).
18. Received $35.00 from *M. A. Johnson* to apply on account.
20. Paid *Kaiser Bros.* $34.95 in full of account.
Received for cash *sales*, $50.00.

(*Concluded on page 55.*)

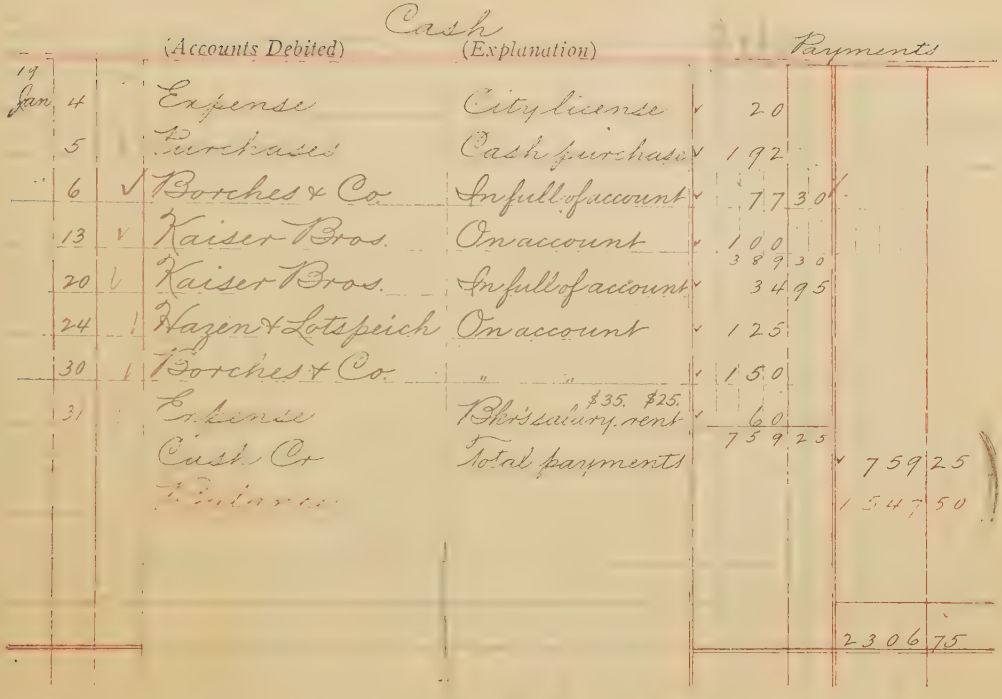

Cash
(Accounts Debited)
(Explanation)
Payments
19
Jan. 4 Expense City license 20
5 Purchases Cash purchases 192
6 Borches & Co. In full of account 7730
13 Kaiser Bros. On account 100
3890
20 Kaiser Bros. In full of account 3495
24 Hazen & Lotspeich On account 125
30 Borches & Co. " " 150
31 Expense Bkr's salary, rent $35. $25. 60
7592 5
Cash Cr. Total payments 759 25
Balance 1547 50
2306 75

Illustration No. 20, Credit Side of Cash Book, January, Introductory Set.

Explanation: This illustration is the record of the cash payments in the first month of the Introductory Set, also the cash payments outlined in Exercise No. 33 on page 55. The method of posting from the credit side of the cash book is explained in § 62, ¶ 6, and the result of posting these entries is shown by the debits to the various accounts on pages 57, 58, and 59, except the posting from the sales book and the total of the purchases book.

(*Exercise No. 33—Continued from page 54.*)

Jan. 24. Received $15.00 from *Central Hotel* to apply on account.
Paid *Hazen & Lotspeich* $125.00 to apply on account.
26. Received $4.25 from *A. R. Jennings* to apply on account.
27. Received for cash *sales*, $42.50.
29. Received $50.00 from *C. L. Loyd* to apply on account.
30. Paid *Borches & Co.* $150.00 to apply on account.
31. Paid bookkeeper's salary $35.00, and rent $25.00 (*Expense*).
Cash balance, $1,547.50.

Post (§62, ¶¶ 5, 6 and 7) to a sheet of ledger paper (see pages 57, 58 and 59), take a Trial Balance, and present for approval.

Exercise No. 34, Cash Book.

Feb. 1. *Student* invested $1,276.80 in cash (§ 62, ¶ 1).
2. Received $150.00 from *E. H. White*, to apply on account (§ 62, ¶ 1).
3. Paid office rent for month of February, $40.00 (Debit § 43).
4. Received $80.00 for cash *sales* (§ 62, ¶ 1).
Paid *H. R. Swanson* $60.00, to apply on account (§ 62, ¶ 2).
6. Received $120.00 for cash *sales* (§ 62, ¶ 1).
8. Paid *A. B. Hill* $90.50, to apply on account.
9. Received $90.00 from *J. K. Lachman* in payment of bill of Jan. 10.

(*Concluded on page 56.*)

(*Exercise No. 34—Continued from page 55.*)

Feb. 10. Paid drayage on merchandise purchased, $22.50. (Debit § 40, ¶ 3).
11. Paid *J. G. Pipkin* $124.00, to apply on account.
14. Received $69.75 for cash *sales*.
16. Received $170.00 from *P. B. S. Peters*, in payment of invoice of Jan. 10.
18. Paid $45.00 for office *expense*.
20. Paid *J. T. Ludlow* $146.00, to apply on account.
22. *Purchased* merchandise for cash from H. P. King, $128.00.
23. Received $47.85 for cash *sales*.
24. Received $210.00 from *H. M. Lovert*, to apply on account.
25. Paid salesman's expenses, $76.00 (Debit § 43).
Received $52.50 for cash *sales*.
27. Paid $32.80 for freight on merchandise purchased (Debit § 40).
Paid clerk hire, $40.00 (Debit § 43).
28. Paid for advertising $22.50 (Debit § 43).
Cash balance, $1,439.60.

Post (§ 62, ¶¶ 5, 6 and 7) to a sheet of ledger paper, take a Trial Balance and present for approval.

Exercise No. 35, Cash Book.

Mar. 1. C. U. Steele invested $2,500.00 cash in the retail shoe business.
2. Bought from M. B. Arnstine, for cash, stock of shoes invoiced at $1,691.42.
3. Paid telephone service for three months, in advance, $20.00.
Received $69.85 for cash sales.
5. Paid clerk hire, $10.00.
6. Received $7.50 from R. L. Watson in full of account.
8. Paid Bay State Shoe Co. $496.81 in full of account.
9. Received $275.40 for cash sales.
12. Paid clerk hire, $10.00.
13. Paid $75.00, premium on insurance policy (§ 43, ¶ 1).
15. Paid Haynes, Henson & Co. $387.65 in full of account.
16. Received $5.25 from C. A. Sheppard in full of account.
18. Paid $8.25 for stamps and stationery.
19. Paid clerk hire, $10.00.
22. Received $33.10 from J. C. Wilson & Co., in full of account.
24. Received $8.45 from W. K. Love, in full of account.
26. Received $581.92 for cash sales.
Paid clerk hire, $10.00.
27. C. U. Steele withdrew $50.00 (§ 38, ¶ 2).
29. Received $2.50 from A. R. King, in full of bill charged on the 12th.
31. Paid rent, $50.00.
Paid Cline Shoe Co. $168.42 in full of invoice purchased March 6th.
Received $361.92 for cash sales.
Cash balance, $858.34.

Open the following new accounts on the double sheet of ledger paper used in connection with Exercises Nos. 29 and 32: C. U. Steele Capital, Cash, and Expense, allowing one-third of a page for each account. Post (§ 62, ¶¶ 5-7) from the cash book to these new accounts and the other accounts on the ledger sheet that may be affected; rule the accounts that balance (§ 36, ¶ 12, and § 37, ¶ 13). When the posting is completed, check the posting (§ 64) from the purchases book, sales book, and cash book, take a Trial Balance (§ 66), and present for approval.

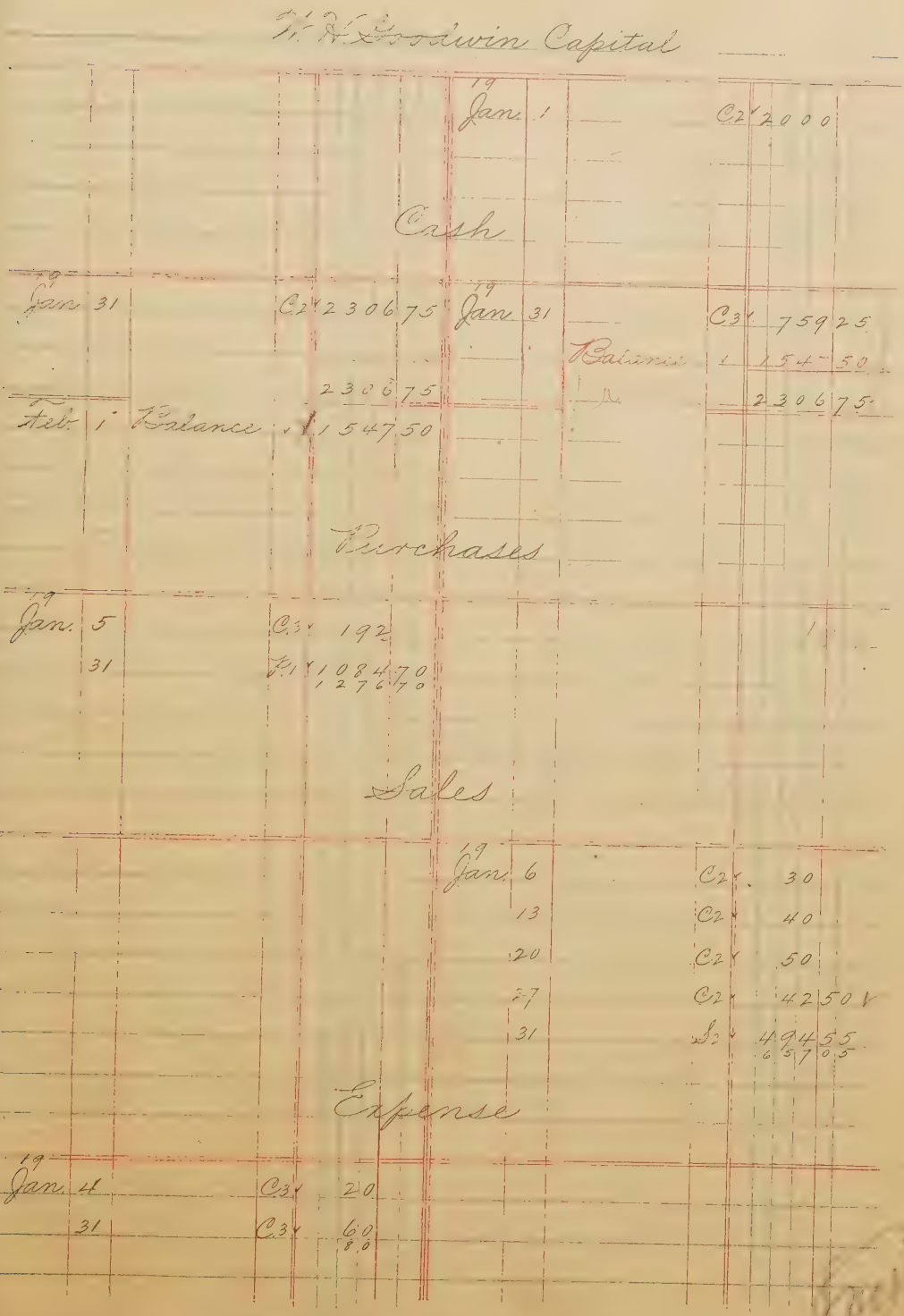


Illustration No. 21, Ledger Accounts for January, Introductory Set—*Continued.*

Wilson / Forches & Co. City

19				19				
Jan	6	C3	77 30	Jan	2		P1	77 30
	30	C3	1 50		15	76 00	P1	2 46

Kaiser Bros. City

19				19				
Jan	13	C3	1 00	Jan	3		P1	1 34 95
	20	C3	34 95					

Hazen & Kolbpeich City

19				19				
Jan	24	C3	1 25	Jan	10	103 60	P1	228 60

Lake View Creamery City

19				19				
				Jan	17		P1	28

J. Allen Smith & Co. City

19				19				
				Jan	23		P1	1 97 10

Donaldson Bros City

19				19				
				Jan	27		P1	1 72 75

A. R. Jennings 105 Main St. City

19				19				
Jan	4	S1	14 25	Jan	9		C2	10
	11	S1	54 25		26		C2	4 25

Illustration No. 21, Ledger Accounts for January, Introductory Set—*Continued*.

Central Hotel.
22 Walnut St. City.

19						19				
Jan.	8	12.35	S1	57	35	Jan	12	C2	30	
							24	C2	15	
									45	

H. A. Johnson
Kingston.

19						19				
Jan.	13	17.40	S1	52	40	Jan	18	C2	35	

Imperial Hotel
200 Locust St. City

19						
Jan.	16		S1	49	40	
	25		S2	80	05	
				129	45	

C. C. Williams
1221 Elm St. City

19						
Jan.	19		S1	42	30	

R. G. Mathews
26 E. Fourth St. City

19						
Jan.	22		S2	24	05	

J. C. Wilson
270 Central Ave. City

19						
Jan.	26		S2	42	25	

C. L. Loyd
1604 Vine St. City.

19						19				
Jan	27	28.25	S2	78	25	Jan.	29	C2	50	

Illustration No. 21, Ledger Accounts for January, Introductory Set—*Concluded*.

Explanation: The accounts on pages 57, 58, and 59 are the result of posting the entries in Illustrations Nos. 17, 18, 19, and 20. The student's ledger will show the same results after posting transactions for the first month of the Introductory Set.

W. H. Woodwin
Trial Balance, January 31, 19

1	W. H. Woodwin, Capital								2	0	0	0			
1	Cash			1	5	4	7	50							
2	Purchases			1	2	7	6	70							
2	Sales									6	5	7	0	5	
3	Expense					8	0								
7	Borches & Co	✓										9	6		
7	Hazen & Lotspeich	✓								1	0	3	6	0	
8	Lake View Creamery	✓										2	8		
8	J. Allen Smith & Co	✓								1	9	7	1	0	
8	Donaldson Bros.	✓								1	7	2	7	5	
12	A. R. Jennings				5	4	2	5							
12	Central Hotel				1	2	3	5							
12	M. A. Johnson				1	7	4	0							
13	Imperial Hotel			1	2	9	4	5							
13	A. C. Williams				4	2	3	0							
13	R. M. Mathews				2	4	0	5							
14	J. C. Wilson				4	2	2	5							
14	C. L. Loyd				2	8	2	5							
				3	2	5	4	50	3	2	5	4	5	0	
				3	2	5	4	50	3	2	5	4	5	0	

Illustration No. 22, Trial Balance, January 31, Introductory Set.

Explanation. This Trial Balance is made from the ledger accounts, pages 57, 58, and 59, and is the same as the student's Trial Balance for January; the figures at the left are the pages on which these accounts appear in the student's ledger. The Balance Sheet (§ 81) is prepared from the real accounts on this Trial Balance and the inventory of merchandise. The Profit and Loss statement (§ 82) is prepared from the nominal accounts.

CLOSE OF THE FISCAL PERIOD.

§ 76. **The Object of all Investment** in business is profit, that is, increase in the value of the property invested. Since this is the object, it is evident that every person who invests property in a business enterprise will want to know the condition of the business at least once each year, and, to learn this, will require the bookkeeper to make a statement showing the profits and losses for the period. The time that elapses between the beginning of the business and the first statement of the business, or between the last statement and the present one, is the "Fiscal

Period." This may be one year or any fraction of a year, according to the nature of the business and the wishes of the investors. The end of a fiscal period is sometimes called the "closing time," because at that time the books are closed.

¶ 1. *Income Tax.* The Revenue Law enacted by Congress, fixing a tax on incomes, signed by President Wilson February 24, 1919, defines the "taxable year" and distinguishes between the "calendar year" and "fiscal year" in section 200, as follows: "The term 'taxable year' means the calendar year, or the fiscal year ending during such calendar year, upon the basis of which the net income is computed under section 212 or section 232. The term 'fiscal year' means an accounting period of twelve months ending on the last day of any month other than December. The first taxable year, to be called the taxable year 1918, shall be the calendar year 1918 or any fiscal year ending during the calendar year 1918."

¶ 2. *Taking Stock.* At the close of each current fiscal period it is necessary to "take stock," that is, to ascertain the present value of salable merchandise on hand, as this is one of the principal assets of the business.

INVENTORY.

§ 77. **An Inventory** is a list of merchandise or other property belonging to the business at the close of the fiscal period, the value of which is not shown by an account in the ledger. The total value of the property is also referred to as the inventory.

¶ 1. *Merchandise Inventory.* This is the value of the salable merchandise in stock at the close of the fiscal period. The value of the inventory is ascertained by "taking stock," that is, making a list of all the merchandise on hand, at the proper price. This list contains the number of articles of each class, the description, the value of each class, and the total value of all merchandise as in Illustration No. 23.

¶ 2. *When the Market Price is Used.* The market price is used (a) when this is less than cost, and (b) when there is a change in the ownership of the business. Except in case of a change in the ownership of the business, the inventory should never be valued at more than cost price, for this would create on the books a profit which has not been realized, which is contrary to sound accounting principles. Profits can arise only as the result of sales and should not be anticipated in making the Statement of the Business.

The following quotation from the Associated Press, taken from a letter sent by the Secretary of the National Association of Credit Men to 22,000 members of the organization, shows the importance of using the correct price in ascertaining the value of the inventory: "Merchandise should be inventoried at cost no matter how far above cost the replacement value of the merchandise has gone. If depreciation has occurred in the merchandise, or it could be replaced at less than cost, then the inventory should be taken at the replacement value and not at cost price."

¶ 3. *Going Inventory of Merchandise.* This is effected by keeping an account with each separate class of merchandise, debiting it with the number of units when purchased, and crediting it with the number of units when sold. This plan is very satisfactory in such lines as furniture, shoes and hardware, because the units sold are the same as the units purchased. It is necessary to prove the results of these accounts by "taking stock," because of the many errors that may be made in handling merchandise, and the possibility of articles being destroyed or stolen.

¶ 4. *Income Tax.* Inventories are defined in section 203 of the Revenue Law signed by President Wilson, February 24, 1919, as follows: "That whenever in the opinion of the Commissioner the use of inventories is necessary in order clearly to determine the income of any taxpayer, inventories shall be taken by such taxpayer upon such basis as the Commissioner, with the approval of the Secretary, may prescribe as conforming as nearly as may be to the best accounting practice in the trade or business and as most clearly reflecting the income."

MERCHANDISE INVENTORY, JANUARY 31, 19

73 lbs.	Granulated Sugar.	(per 100#)	$ 3.40	2 48
196 "	Brown Sugar	" "	3.20	6 27
1 doz.	Ivory Soap.		.35	35
3 "	Blacking.		.30	90
46 lbs.	Arbuckle Coffee		.10	4 60
13 "	Tea		.25	3 25
38 gal.	Coal Oil.		.09	3 42
646 lbs.	Bacon.		.10	64 60
493 "	Ham.		.10	49 30
1388 "	Shoulder.		.06	83 28
119 "	Lard		.10	11 90
24 doz.	cans Tomatoes		.65	15 60
35 gal.	Syrup		.25	8 75
8 bu.	Irish Potatoes.		.80	6 40
10 bu.	Sweet Potatoes.		.60	6
127 lbs.	Trent Tobacco		.35	44 45
42 "	Smoking Tobacco		.30	12 60
3863	Daniel Boone Cigars.	(per 1000)	33.00	127 48
1896	Key West Cigars.	" "	16.00	30 34
23 bbls.	Roller King Flour.		3.25	74 75
24 "	White Lily Flour		3.85	92 40
36 bu.	Meal		.50	18 00
80 lbs.	Creamery Butter		.28	22 40
98 doz.	Eggs.		.16	15 68
3 bu.	Beans.		1.00	3
9261 lbs.	Hay	(per ton of 2000#)	17.65	81 73
73 bu.	Corn		.40	29 20
78 bu.	Oats		.31½	24 57
5963 lbs.	Bran.	(per 1000#)	6.50	38 76
	Value of merchandise on hand			882 46

Illustration No. 23, Merchandise in Stock, January 31, Introductory Set.

Explanation: This is a list of merchandise in stock at the close of the first fiscal period in the Introductory Set. The amount, $882.46, appears as one of the current assets on the Balance Sheet, Illustration No. 24, and in connection with ascertaining the "Gross Profit on Sales" on the Profit and Loss statement, Illustration No. 25.

§ 78. Resource Inventory. A list of the prepaid advertising, unexpired insurance, accrued interest, etc., is sometimes referred to as a resource inventory. These are inventories in a certain sense, but are best treated as accrued assets or deferred charges to operations, according to their nature. These are fully explained in succeeding sets.

§ 79. Liability Inventory. A list of the interest owed by the business but not due, unpaid pay roll, subscriptions collected in advance, interest collected in advance, etc., is sometimes referred to as a liability inventory. These are best treated as accrued liabilities or deferred credits to income according to their nature. These are fully explained in succeeding sets.

STATEMENT OF THE BUSINESS.

§ 80. At the Close of each Fiscal Period, the bookkeeper prepares a statement showing the present financial condition of the business and the profit or loss for the period. This shows the assets, liabilities, capital, income, operating cost, and net profit or net loss for the period. It is customary to make two distinct statements, the Balance Sheet (§ 81) and the Profit and Loss statement (§ 82). In practice, the Balance Sheet is prepared first. The facts necessary in making these statements are obtained from the ledger accounts (Trial Balance) and the inventory of merchandise.

§ 81. Balance Sheet. As explained in § 17, the Balance Sheet is a list of the assets, liabilities, and capital, arranged in proper form. The usual arrangement is assets on the left, and liabilities and present capital on the right, as in Illustration No. 24. If desired, the liabilities may be listed below the assets instead of at the right as in the illustration, making the form the same as the Profit and Loss statement.

¶ 1. *The Assets* are usually listed as follows: Cash, Notes Receivable, Personal accounts, Merchandise Inventory (salable goods on hand), and Fixed

W. H. GOODWIN

BALANCE SHEET, JANUARY 31, 19..

Current Assets:				Current Liabilities:				
Cash	1547	50		Borches & Co.	96	00		
A. R. Jennings	54	25		Hazen & Lotspeich	103	60		
Central Hotel	12	35		Lake View Creamery	28	00		
M. A. Johnson	17	40		J. Allen Smith & Co.	197	10		
Imperial Hotel	129	45		Donaldson Bros.	172	75		
A. C. Williams	42	30		Total Current Liabilities			597	45
R. G. Mathews	24	05		Capital Account:				
C. L. Loyd	28	25		W. H. Goodwin, Pres. Cap.			2182	81
J. C. Wilson	42	25						
Mdse. Inventory Jan. 31	882	46						
Total Current Assets			2780	26	Total Liabilities & Capital		2780	26

Illustration No. 24, Balance Sheet, January 31, Introductory Set.

Explanation: This statement is prepared from the Trial Balance and Inventory on pages 60 and 62 and shows the assets, liabilities and Present Capital of W. H. Goodwin at the close of the current fiscal period, ending January 31; it is the same as that required of the student at the close of the first fiscal period in the Introductory Set. At this time the only assets are Cash, Accounts Receivable, and Merchandise Inventory; the only liabilities are Accounts Payable. Had there been a number of personal accounts, these would have been shown on a separate list, and the totals only shown as "Personal Accounts" on the Balance Sheet.

Assets. The total of the various asset accounts is the present capital, if there are no outstanding obligations.

¶ 2. *The Liabilities* are listed in the following order: Notes Payable, Accounts Payable. The total of these equals the total liabilities, that is, the outstanding obligations, which are to be paid by the business.

¶ 3. *The Present Capital or Present Worth* of the business is the difference between the total assets and total liabilities. The net profit shown by the Profit and Loss statement, added to the net investment (balance of the Capital account) is the present capital. If the Profit and Loss statement shows a loss, the amount of this loss is deducted from the net investment.

§ 82. **Profit and Loss Statement.** As explained in § 18, the Profit and Loss statement is a list of the income, operating cost, profits, losses, and net profit or loss, arranged in proper form. The usual form is the principal income first, followed by the operating cost, special losses, and special profits, as in Illustration No. 25, except that in this illustration there are no special profits nor special losses.

¶ 1. *Gross Profit on Sales.* This is obtained by deducting the net cost of merchandise sold (merchandise on hand at the beginning of the period, plus the

W. H. GOODWIN

STATEMENT OF PROFIT AND LOSS FOR PERIOD, JAN. 1, 19 TO JAN. 31, 19

Returns from Sales:				
Gross Sales			657	05
Cost of Sales:				
Purchases	1276	70		
Deduct Inventory January 31	882	46		
Net cost of merchandise sold			394	24
Gross Profit on Sales			262	81
Operating Expenses:				
Expense			80	00
Net Profit			182	81

Proof

W. H. Goodwin's Present Capital (Bal. Sheet)		2182.81
W. H. Goodwin's Investment Jan. 1	2000.00	
Add Net Profit	182.81	
	2182.81	2182.81

Illustration No. 25, Profit and Loss Statement, January 31, Introductory Set.

Explanation: This statement is prepared from the Trial Balance and Inventory on pages 60 and 62, and shows the profits, losses and net profit of the business conducted by W. H. Goodwin at the close of the fiscal period ending January 31; it is the same as that required of the student at the end of the first fiscal period in the Introductory Set. At this time the only profit is the gross profit on sales, that is the profit on merchandise sold. The only loss is the expenses, balance of the Expense account. The profit on merchandise sold is ascertained from the Inventory January 31, the Purchases account, and the Sales account. This is the first fiscal period for the business, hence there was no inventory at the close of the preceding fiscal period.

cost of merchandise purchased during the period, minus the value of goods on hand at the close of the period) from the net returns from sales (total cash and credit sales, minus any deductions for rebates or allowances). The statement of the facts in connection with ascertaining the gross profit on sales is usually made a part of the Profit and Loss statement, but may be shown as a separate schedule termed the Trading Statement.

¶ 2. *Operating Expense.* This is represented by one Expense account, or various accounts with expense. The total is the operating expense, or the cost of conducting the business for the fiscal period.

¶ 3. *Other Income.* This is represented by the credit balances of profit accounts, and may be, Interest, Discount, Commission, Profit on Real Estate, etc. (If any of these accounts show a debit balance, they are listed as deductions from income, ¶ 4.)

¶ 4. *Deductions from Income.* These are represented by the debit balances of loss accounts, and may be, Interest, Discount, Commission, etc. (If any of these accounts show a credit balance, they are listed with the other income.)

¶ 5. *The Net Profit* is the gross profit on sales (¶ 1) less the operating expense (¶ 2), plus additional profits or income (¶ 3), less deductions from income (¶ 4). If the operating expense and deductions from income exceed the gross profit on sales and additional income, the business has been operated at a loss. The profit as shown by the Profit and Loss statement added to the net investment (investment at the beginning, plus additional investments and minus withdrawals) must equal the Present Capital as shown by the Balance Sheet.

¶ 6. *No Facts* shown by either the Balance Sheet or the Profit and Loss statement can be accepted as correct unless the net profit as shown by the Profit and Loss statement is the same as the difference between the Present Capital shown by the Balance Sheet, and the investment. (See proof in Illustration No. 25.)

Exercises in Preparing the Statement of the Business. Prepare a Statement of the Business consisting of the Balance Sheet and Profit and Loss statement from each of the following Trial Balances. The inventory of merchandise is given below the Trial Balance. Use balance sheet paper for the Balance Sheet (Illustration No. 24) and journal paper for the Profit and Loss statement (Illustration No. 25).

Exercise No. 36. Balance Sheet and Profit and Loss Statement.

Trial Balance, A. Ragland, March 31. A. Ragland, Capital Cr., $2,500.00; Cash Dr., $2,216.50; Purchases Dr., $1,654.10; Sales Cr., $996.58; Expense Dr., $107.50; A. C. Briscoe Cr., $127.50; A. L. Lesseman Dr., $62.50; Mays Bros. Cr., $92.85; B. C. Bacon Dr., $13.50; J. J. Hornback Cr., $209.65; E. E. Admire Cr., $127.52.

Merchandise Inventory, $927.36.

Exercise No. 37. Balance Sheet and Profit and Loss Statement.

Trial Balance, T. B. Bridges, Feb. 28. T. B. Bridges Capital Cr., $1,500.00; Cash Dr., $1,215.50; Purchases Dr., $1,116.75; Sales Cr., $718.10; Expense Dr., $50.50; Johnson Bros. Cr., $218.75; Rice & May Cr., $197.62; E. K. Isaacs Dr., $125.18; J. C. Sisk Dr., $110.15; W. W. Moore Dr., $62.50; A. L. Peer Cr., $46.11.

Merchandise Inventory, $565.40.

Exercise No. 38. See Trial Balance, Illustration No. 22; Merchandise Inventory, Illustration No. 23; Balance Sheet Illustration No. 24; Profit and Loss statement, Illustration No. 25.

§ 83. Six Column Statement. Illustration No. 26 shows another form of the Statement of the Business, sometimes referred to as a Balance Sheet. Accountants frequently use this form as a preliminary step to making the Balance Sheet and Profit and Loss statement. When so used it is referred to as a *Working Sheet.* This is more fully explained in a subsequent discussion.

Statement of the Business, January 31, 19

I F	Names of Accounts	Trial Balance Debits	Trial Balance Credits	Profit and Loss Statement Losses	Profit and Loss Statement Profits	Balance Sheet Assets	Balance Sheet Liabilities
	W. H. Goodwin, Capital		2000				
	Cash	1547 50				1547 50	
	Purchases	12767 0				5811 46	
	Sales		6570 5		2628 1		
	Expense	80		80			
	Borches & Co.		96				96
	Hazen & Lotspeich		10360				10360
	Lake View Creamery		28				28
	J. Allen Smith & Co.		1971 0				1971 0
	Donaldson Bros.		1727 5				1727 5
	A. R. Jennings	54 25				54 25	
	Central Hotel	12 35				12 35	
	M. A. Johnson	17 40				17 40	
	Imperial Hotel	129 45				129 45	
	A. C. Williams	42 30				42 30	
	R. L. Mathews	24 05				24 05	
	C. L. Loyd	28 25				28 25	
	J. C. Wilson	42 25				42 25	
		3254 50	3254 50	80	2628 1	2780 26	5974 5
	Net Profit			1828 1			
				2628 1	2628 1		
	W. H. G's Investment		2000				
	Net Profit added		1828 1				1828 1
	W. H. G's Present Capital						3828 1
						2780 26	2780 26

Illustration No. 26, Six Column Statement.

Explanation: The Trial Balance is in the first two money columns at the left, the Profit and Loss statement in the next two columns, and the Balance Sheet in the two columns at the right. The inventory of merchandise is written with red ink to show that it is not an account on the Trial Balance; two special columns between the Trial Balance and Profit and Loss statement may be provided for inventories if desired. The net profit balances the Profit and Loss columns and this profit added to the investment balances the Assets and Liabilities columns; this proves the correctness of the work.

The student is advised to prepare a Working Sheet similar in form to the above illustration from the Trial Balance at the close of each fiscal period prior to the Balance Sheet and Profit and Loss statement. This will provide a better understanding of the principles involved and give great assistance in preparing the more elaborate form of Working Sheet required in the advanced sets.

CLOSING THE LEDGER.

§ 84. **The Object of Closing the Ledger** is to provide in the ledger a permanent record of the financial condition of the business as shown by the Statement of the Business at the close of the fiscal period. To accomplish this, it is necessary to close all accounts that show a profit or a loss into a Profit and Loss account. When these accounts are closed, the balance of the Profit and Loss account is the same as the net profit or net loss shown by the Profit and Loss statement. The Profit and Loss account is closed into the Capital account or accounts. After the ledger is closed, there are no accounts open except those shown on the Balance Sheet. There are two methods of closing the ledger,—the direct transfer method and the journal entry method.

¶ 1. *Direct Transfer Method.* By this method all the accounts that show a profit or loss are closed into the Profit and Loss account by transferring the balance of each account to the proper side of the Profit and Loss account without making a record of this transfer in a book of original entry.

The balance of each account which is closed is written with red ink to indicate that it has been transferred to some other account, hence this method is sometimes termed the "red ink" method of closing. See Appendix A, latter part of the text.

¶ 2. *Journal Entry Method.* By this method an entry is made in the journal to transfer the balance of each account showing a profit or a loss to the Profit and Loss account. Accountants recommend the use of the journal entry method because it furnishes a record in the journal of all transfers made in the ledger.

ENTRIES TO CLOSE THE LEDGER THROUGH THE JOURNAL.

With the Profit and Loss statement as a guide, entries are made in the journal, usually in the order given below; italics indicates the name of the account:

1st. Debit *Inventory* and credit *Purchases* for the value of merchandise in stock at the close of the fiscal period.

2d. Debit *Sales* and credit *Purchases* for the "Net cost of merchandise sold."

3d. Debit *Sales* and credit *Profit and Loss* for the "Gross profit on sales."

4th. Debit *Profit and Loss* and credit *Expense* for the "Operating Expense;" other accounts showing operating cost are closed in the same manner.

5th. Debit accounts which show "Other Income" on the Profit and Loss statement and credit *Profit and Loss.*

6th. Debit *Profit and Loss* and credit accounts which show "Deductions from Income" on the Profit and Loss statement.

7th. Debit *Profit and Loss* and credit *Capital* with the "Net Profit."

8th. Debit *Purchases* and credit *Inventory* for the same amount as in the first entry; this entry may be omitted until the close of the next fiscal period.

9th. Close the Capital account with red ink, as in Illustration No. 29. A journal entry may be made debiting Capital and crediting Capital, but the red ink entry is preferable.

The entries showing the application of the first, second, third, fourth, seventh and eighth paragraphs above are shown on page 68; paragraphs five and six will be illustrated later. When all the entries are posted, the accounts affected will balance and are footed and ruled as in Illustration No. 28 on page 69.

NOTE. The purpose of the first entry is to place the inventory on the ledger; Purchases is credited because the debit side shows the cost price of merchandise purchased. The purpose of the second entry is to transfer the cost of sales from the Purchases account to the Sales account; cost of sales is the difference between the total purchases and value of merchandise on hand at the close of the fiscal period. The purpose of the third entry is to transfer the profit on sales from the Sales account to the Profit and Loss account; the profit on sales is the difference between the cost and selling price. The purpose of the other entries is to close the balance of a profit or a loss account into the Profit and Loss account, and to close the balance of the Profit and Loss account into the Capital account or accounts.

January 31, 19

Inventory		882	46	
Purchases				882	46
Close Inventory at the close of the fiscal period.				
31				
Sales		394	24	
Purchases				394	24
To close the Purchases account into the Sales account.				
31				
Sales		262	81	
Profit and Loss				262	81
To close the Sales account into the Profit and Loss account.				
31				
Profit and Loss		80		
Expense				80	
To close the Expense account into the Profit and Loss account.				
31				
Profit and Loss		182	81	
H. V. Goodwin, Capital				182	81
To close the Profit and Loss account into the Capital account				
31				
Purchases		882	46	
Inventory				882	46
To close the Inventory account into the Purchases account				

Illustration No. 27, Entries to Close the Profit and Loss Accounts, Jan. 31.

Explanation: This shows the journal entries necessary to close the profit and loss accounts in Illustration No. 25, also at the close of January in the Introductory Set. If desired, the first three entries may be combined as in the illustration at the right. When combined, the Purchases and Sales accounts are closed by their balance instead of the amounts in the illustration on page 69.

Inventory		882	46	
Sales		657	05	
Purchases				1276	70
Profit and Loss				262	81

Purchases

19						19					
Jan.	5		C3	1 97		Jan.	31	Inventory	J1	882 46	
	31		P2	42 57 78				Cost of Sales	J1	394 24	
				1 276 70						1 276 70	
Jan	31	Inventory	J1	882 46							

Inventory

19						19					
Jan	31	Merchandise Inv't	J1	882 46		Jan.	31	Purchases	J1	882 46	

Sales

19						19					
Jan.	31	Cost of Sales	J1	394 24		Jan.	6		C7	30	
		Profit on Sales	J1	262 81			13		C7	40	
							20		C7	50	
							27		C7	42 50	
							31		J4	494 55	
				657 05						657 05	

Purchases, Inventory and Sales Accounts closed January 31, Introductory Set.

Expense

19						19					
Jan.	4		C3	20		Jan.	31	Profit & Loss	J1	80	
	31		C3	60							
				80						80	

Expense Account closed January 31, Introductory Set.

Profit and Loss

19						19					
Jan.	31	Expense	J1	80		Jan.	31	Sales	J1	262 81	
		Net Capital	J1	182 81							
				262 81						262 81	

Illustration No. 28, Profit and Loss Accounts closed January 31.

Explanation: This shows the profit and loss accounts closed by posting the journal entries on page 68. The student should have the same results after the ledger is closed January 31.

W. H. Goodwin, Capital

19 Jan.	31	Present Capital	1	2182	81	19 Jan.	1			C.2	2000		
							31	Net Profit		J.1	182	81	
				2182	81						2182	81	
						Feb.	1	Present Capital		1	2182	81	

Illustration No. 29, W. H. Goodwin, Capital Account closed January 31.

§ 85. **The Proof Sheet** is the final Trial Balance taken after all the profit and loss accounts in the ledger have been closed. It is made after the closing that the bookkeeper may know his ledger is in balance at the beginning of the next fiscal period. The form is the same as the Trial Balance as in Illustration No. 30.

Proof Sheet, Jan. 31, 19

1	W. H. Goodwin, Capital					2182	81
1	Cash	1547	50				
2	Purchases	882	46				
1	Personal Accounts, Customers	350	30				
1	Personal Accounts, Creditors					550	45
		2780	26			2732	26

Illustration No. 30, Proof Sheet, January 31, Introductory Set.

QUESTIONS.

1. What are business papers? (§ 68.)
2. Distinguish between a bill and an invoice. (§ 69.)
3. What is meant by "terms"? (§ 69, ¶ 1.)
4. What is a receipt? (§ 70.)
5. Why should incoming papers be audited? (§ 72.)
6. Define license. (§ 74.)
7. Why should business papers be filed? (§ 75.)
8. What is a fiscal period? (§ 76.) How much time may it cover?
9. What is an inventory? (§ 77.) What is meant by taking stock? (§ 77, ¶ 1.)
10. At what price should the merchandise inventory be taken?
11. Why is a Statement of the Business necessary? (§ 80.)
12. What is the purpose of the Balance Sheet? (§ 81.)
13. What is the purpose of the Profit and Loss statement? (§ 82.)
14. Describe the Six Column Statement. (§ 83.)
15. Why is the ledger closed? (§ 84.)
16. What accounts are closed?
17. What accounts will be open after the ledger is closed?
18. Describe the two methods of closing the ledger. (§ 84, ¶¶ 1 and 2.)
19. Why is the journal entry method preferred by accountants? (§ 84, ¶ 2.)
20. What is the purpose of the Proof Sheet? (§ 85.)

INTRODUCTORY SET (Continued).

FEBRUARY.

§ 86. **Introduction.** The work in this month is a continuation of the practice work of January. The same books of account are used, and the same accounts are kept, with the addition of Notes Receivable, Notes Payable and Furniture and Fixtures. Transactions with the bank and those involving the use of commercial paper are introduced and illustrated.

§ 87. **Commercial Paper** is that class of written contract obligations which are used in the place of and for money. Commercial Paper is divided into two classes: (*a*) paper that the bank will not accept as cash at its face value, which includes personal drafts and notes; (*b*) paper which the bank will accept as cash at its face value, which includes personal checks, bank drafts, cashier's checks, express, bank and postal money orders.

§ 88. **A Draft** is a written order from one party to another, directing him to pay a certain sum of money to a third party. A draft has three original parties: the drawer, the drawee and the payee. The one signing the draft is the drawer; the one who is asked to pay the amount is the drawee; and the one to whom the money is to be paid is the payee. The draft indicates that the drawee is indebted to the drawer, and that he (the drawer) wishes the amount paid to the payee. There are two kinds of drafts, known as *sight drafts* and *time drafts*.

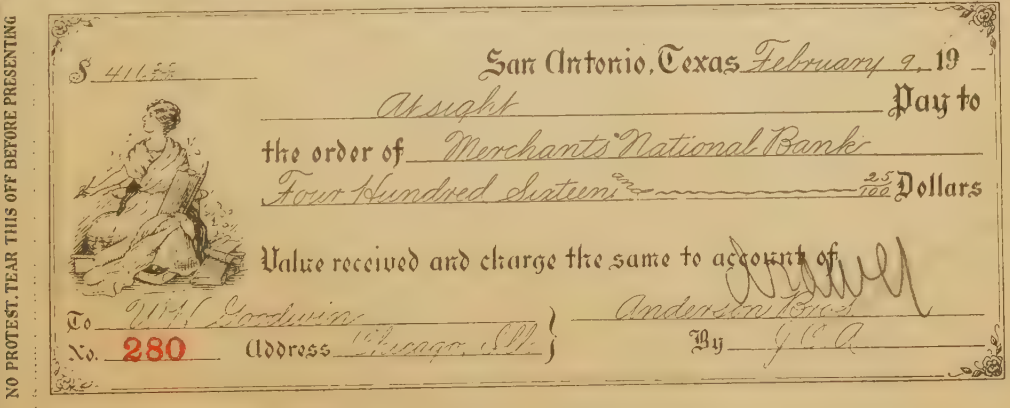

NO PROTEST. TEAR THIS OFF BEFORE PRESENTING
$ 41655
San Antonio, Texas February 9, 19
At sight
Pay to
the order of Merchants National Bank
Four Hundred Sixteen 55/100 Dollars
Value received and charge the same to account of
To W. H. Goodwin
No. 280
Address Chicago, Ill.
Anderson Bros.
By J. C. A.

Illustration No. 31, Sight Draft.

§ 89. **A Sight Draft** indicates that the amount owed the drawer is past due, and he wishes it paid upon presentation. If a sight draft is not paid upon presentation, the drawer should be notified immediately by the holder. See Illustration No. 31.

§ 90. **A Time Draft** indicates that the amount owed the drawer is not due or that he wishes to allow the drawee additional time in which to make payment. They are usually drawn payable a designated number of days after sight or after date. The drawee accepts a time draft by writing across the face with red or black ink "Accepted," the date, his name and, if desired, the bank at which it is payable. If the drawee does not accept the draft upon presentation, the drawer and all previous endorsers should be notified immediately. See Illustration No. 32.

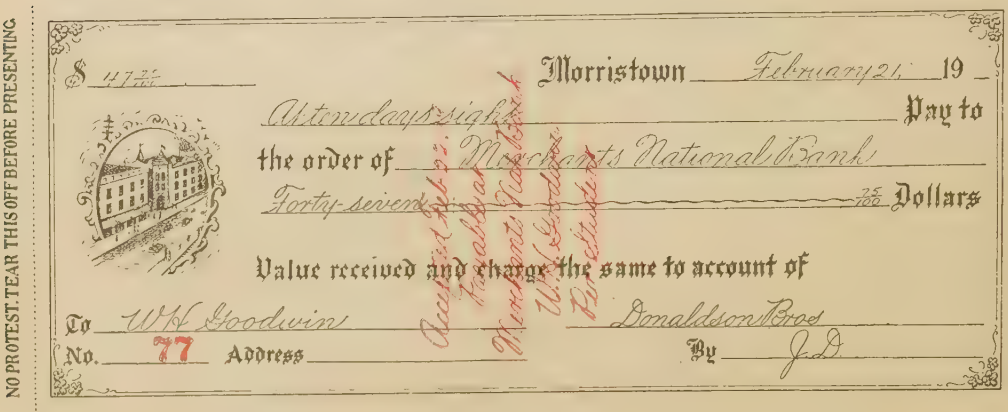

NO PROTEST. TEAR THIS OFF BEFORE PRESENTING.
$ 47.75
Morristown February 21, 19
At ten days sight
Pay to
the order of Merchants National Bank
Forty-seven 75/100 Dollars
Value received and charge the same to account of
To W. F. Goodwin
Donaldson Bros
No. 77 Address
By J. D.

Illustration No. 32, Time Draft—Accepted.

¶ 1. *An Accepted Time Draft* is usually termed an "Acceptance." A. H. Miller's acceptance means a time draft drawn on A. H. Miller and accepted by him.

¶ 2. *A Trade Acceptance* is defined by the Federal Reserve Board as "a bill of exchange (time draft) drawn by the seller on the purchaser of goods sold, and accepted by such purchaser", this acceptance being made on the date of purchase or within a few days thereafter.

¶ 3. *No Protest.* The law requires that each person secondarily liable for the payment of a draft or other commercial paper, must be notified in case of non-payment. The holder can waive this by using the "No Protest" notice shown on the left-hand end of Illustrations Nos. 31 and 32.

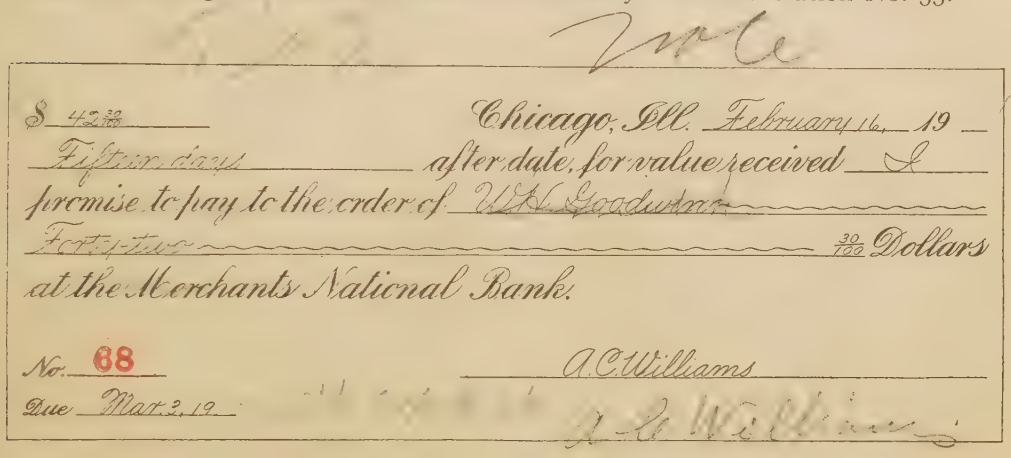
§ 91. **Original Use of Drafts.** Drafts were originally used to avoid sending money to a distant place. A, in Chicago, owes B, in Louisville, a debt of $500.00; C, of Louisville, owes A, of Chicago, an equal amount. A writes an order (draft) on C, asking him to pay the amount to B, and sends the draft to B. B presents this to C, who pays it, retaining the draft as his receipt. With the numerous means now in use for transporting money with absolute safety, this use of drafts is about out of practice.

§ 92. **Present Use of Drafts.** Drafts are now used as a collecting medium only, in nearly all cases some bank or collection agency being the payee. In the above example, A would send his check to B, and expect C to pay his account in the same way. In case C did not do this, he (A) would draw a draft on him (C), in favor of some bank, either in Chicago or Louisville, and send it to the bank to collect. If A does not send his check, B would draw a draft on him in favor of some bank and send it to the bank for collection. See Illustrations Nos. 31 and 32.

§ 93. **A Note** is an unconditional written promise to pay a fixed amount of money at a stated time, and is signed by the person agreeing to pay it. A note has

two original parties, the maker and the payee. The one who signs the note is the maker; the one in whose favor it is made, the payee. A note indicates that the maker is indebted to the payee, and has agreed to pay the amount stated, at the maturity of the note.

Notes are used in business as evidence of indebtedness, either as a loan or as an extension of time on some debt. Thus A, a merchant, sells B a quantity of goods to be paid for on the first of the following month. At this time B states he is not in a position to meet the obligation, but will give his note due in thirty days in payment of the amount. If B has a good credit, A can transfer the note to his banker, receiving the cash, less interest to maturity. See Illustration No. 33.


Note

$ 45.30 Chicago, Ill. February 16, 19__

Fifteen days after date, for value received I

promise to pay to the order of W. H. Goodwin

Forty-five 30/100 Dollars

at the Merchants National Bank.

No. 68 A. C. Williams

Due Mar. 2, 19__

Illustration No. 33, Note.

¶ 1. *The Face of a Note* is the amount stated in it. This amount is shown as its value on the books.

¶ 2. *The Maturity Value of a Note* is the amount to be collected at maturity. If a note reads "with interest after maturity," the face is the maturity value; if it reads "with interest from date," the maturity value is the face plus interest at the legal rate from date to maturity. When a note is discounted at the bank the interest (discount) is calculated on the maturity value.

¶ 3. *A Time Draft*, after it is accepted, is the same as a note because the acceptance is the written promise of the person who accepts it to pay the amount mentioned at a fixed time. See § 90, ¶ 1.

§ 94. Commercial Paper Regarded as Cash. As explained in § 37, cash is money or commercial paper that the bank will accept as money. Commercial paper of this class consists of personal checks, bank drafts, cashier's checks, express money orders, bank money orders, postal money orders, traveler's checks, etc. The most popular forms are Illustrated in Nos. 34, 35, 36 and 37, and explained in ¶¶ 1–6 following.

¶ 1. *Personal Checks* are explained in § 105. The form of check used may be that supplied by the bank or any special form desired by the depositor. Many firms have very elaborate checks containing information concerning their business. Some of them are prepared with special space for information concerning the amount paid; these are known as "Voucher Checks." Illustrations Nos. 34 and 42 show two forms of personal checks.

SOUTHERN STATES PHOSPHATE & FERTILIZER CO.

TRADE SS MARK

Atlanta, Ga. January 4 19 No. 91

Pay to the order of Robert McFarland $ 261.75

Two Hundred Sixty-one and 75/100 Dollars

To Bank of the Manhattan Co. New York City.

Southern States Phosphate & Fertilizer Co.

W Simpson Secy. & Treas.

Illustration No. 34, Personal Check.

¶ 2. *Bank Draft.* A bank draft is a check drawn by one bank on another, and is evidence that the bank drawing the draft has money on deposit with the bank on which it is drawn. This is sometimes called "Exchange," especially if drawn on a bank in New York, Chicago, St. Louis, or some other large city. Illustration No. 35 shows the form of a bank draft.

American National Bank

Utica, N. Y. January 12, No. 3596

Pay to the order of J. H. Henderson Bros. Co. $ 62.39

Sixty-two and 39/100 Dollars

To National City Bank, New York, N.Y.

J. A. Gillespie Cashier.

Illustration No. 35, New York Draft.

¶ 3. *Cashier's Check.* A cashier's check is one drawn on the bank and signed by the cashier. They are used in payment of collections made for persons who are not customers or for paying obligations of the bank. Illustration No. 36 shows the form of a cashier's check.

CASHIER'S CHECK.

No. 13203 Springfield, Mass. January 11, 19

State National Bank

Pay to the order of A. M. Barksdale

Five Hundred Sixty-two and 87/100 Dollars

$ 162.87 W. H. Woodward CASHIER.

Illustration No. 36, Cashier's Check.

¶ 4. *Express Money Orders.* An express money order is a check issued by an express company. These are sold to persons who wish to send money to some person in another city. The leading express companies in the United States are the Adams, American, Wells Fargo and Southern. Illustration No. 37 shows a copy of an express money order issued by the American Express Company.

NOT PAYABLE FOR MORE THAN FIFTY DOLLARS 50

WHEN COUNTERSIGNED BY AGENT AT POINT OF ISSUE

EXPRESS MONEY ORDER

11- 5684625

American Express Company

AGREES TO TRANSMIT AND

48 50

PAY TO THE ORDER OF Harold A. Waltham

THE SUM OF Forty-eight and 50/100 DOLLARS

C. E. Ewell AGENT

ISSUED AT Worcester STATE OF Mass

DATE January 9, 19

Jas. C. Fargo

Carl C. Davidson

Illustration No. 37, Express Money Order.

¶ 5. *Bank Money Orders.* A bank money order is used for the same purpose as the express money order, and is issued by the Bankers' Association, in competition with the express companies. They are sold to those who wish to send money to some person at a distance. The draft is drawn on a central bank in New York City, by a bank, which is a member of the association, and payment is guaranteed by a trust fund.

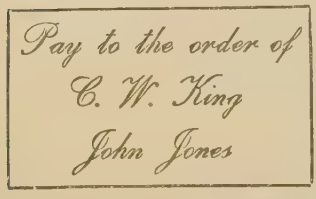
¶ 6. *Postal Money Orders.* These are issued by the United States Post Office and are used for the same purpose as the express and bank money orders. The postmaster issues the order on the sender's written application, a special form being provided for this. Postal money orders may be cashed at any money order post office upon proper identification of the holder.

§ 95. **Endorsements.** An endorsement is any writing on the back of a check, note or other commercial paper, placed there for the purpose of transferring the title, receipting for part payment, or for the accommodation of some one or more of the parties on the paper. The endorsement should be written about one inch from the left-hand end of the paper, as in Illustration No. 38.

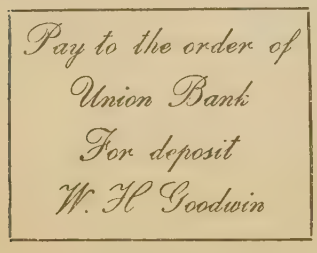
The endorsing of commercial paper should be well understood, as it transfers the title and holds the endorser liable in case default is made in payment. The law allows the same protection to commercial paper as it does to money, and unless it is properly endorsed, if lost, the finder may dispose of it, in which case the loser can not recover it.

§ 96. **Endorsement for Transfer.** There are a number of ways in which the holder of a commercial paper may write his name in order to transfer the title; all of these will be explained in the study of Commercial Law. The four most frequently used are "in blank," "in full," "for deposit" and "for collection."

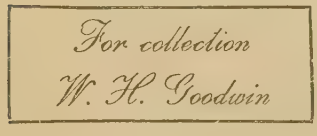
¶ 1. *"In Blank."* An endorsement in blank is the name of the payee or holder only, written across the back. It has the same effect as making the paper payable to bearer, and it may be transferred by any subsequent holder, without further endorsement, but the endorsement of each holder is generally required, for identification.



¶ 2. *"In Full."* This endorsement is effected by writing "Pay to the order of" above the name of the person or firm to whom it is transferred, and signing the name of the payee or holder. The person to whom it is transferred must endorse it before any succeeding holder can use it. All papers sent through the mail, or to be held for some time by the person who receives them, should be endorsed in full.



¶ 3. *"For Deposit."* These words should be written above the name of the depositor on checks and other cash items to be deposited in the bank. This qualifies the endorsement and prevents their being used except for deposit. If desired, a rubber stamp with the words of the illustration at the left may be used for this purpose. If a stamp is used, the one who makes the deposit should indicate his name in connection with the endorsement.



¶ 4. *"For Collection."* Notes left at a bank or other collection agency for collection, should have "For Collection" written above the endorsement. "Pay to the order of" and the name of the bank or collection agency is written above this endorsement. This prevents the paper being used as property of the bank or collection agency.

§ 97. **Endorsement for Receipt of Part Payment.** When only part payment is made on commercial paper, the receipt for the same should be written on the back of the paper, and by the holder. The date and amount is all that is necessary, and under no circumstances should the holder write his name.

Illustration No. 38, Position of Endorsement.

§ 98. **Endorsement for Accommodation.** This is effected by anyone signing his name on the back of a commercial paper for the purpose of guarantying the payment. An endorser for accommodation is as responsible to a third party for the payment of the paper as if he had transferred it for value.

§ 99. **Signing Commercial Paper.** Commercial paper should be signed by the party or parties responsible for its payment or by an authorized agent. An agent authorized to sign commercial paper should have a power of attorney as evidence of his authority. Each partner in a trading partnership can sign commercial paper and bind the firm by his action if the paper is issued in the regular conduct of the business. Commercial paper issued by a corporation is signed by an officer authorized to do so. Commercial paper issued by a partnership or corporation is signed with the firm name and the name of the person authorized to sign. No one should sign commercial paper for another without writing his own name below the name of the party responsible for the payment; the word "by" or "per" should be written to the left of his name. If his name is omitted, he might be held for forgery in case the principal denies his authority to execute the paper. If the word "by" or "per" is omitted, he might be held jointly with the principal or maker.

§ 100. **A Bank** is a business organized for the purpose of dealing in cash and securities. The capital invested together with the money deposited by customers is loaned to those engaged in other business enterprises. A bank is essential for each business community. It offers many advantages, some of which are as follows: a safe place for the keeping of money, a convenient means of paying obligations without the handling of money, a place where money may be borrowed on good security, a means of collecting drafts and other evidences of obligations.

§ 101. **Opening an Account with the Bank.** An account is opened with the bank by depositing currency or cash items with the officer or clerk designated to receive the deposit. As a rule the bank will require satisfactory references as to the financial standing of the depositor. Cash deposited in the bank may be withdrawn at any time except under certain conditions which are agreed to by the depositor. It can be withdrawn only by a written order signed by the depositor. The depositor is required to sign his name on a signature card that the bank may verify his signature on the checks which he writes.

§ 102. Deposit Ticket. A deposit ticket is a printed form on which the depositor lists the currency and cash items to be deposited. These are supplied by the bank. Illustration No. 39 shows a popular form of the deposit ticket.

ALWAYS BRING YOUR PASS BOOK.

Merchants National Bank
Deposited by
W H Goodwin
By Student
Feb 1 19

LIST EACH CHECK SINGLY.	Doll's.	Cts.
Currency	1500	
Silver		
Checks		
"		
"		
"		
"		
"		
"		
Total	1500	

ALWAYS BRING YOUR PASS BOOK.

Merchants National Bank
Deposited by
W H Goodwin
By Student
Feb 2 19

LIST EACH CHECK SINGLY.	Doll's.	Cts.
Currency	125	00
Silver	13	50
Checks City National	132	65
" Chicago	118	60
" Denver	88	25
" Merchants Natl	100	00
" Third National	55	16
" New York	421	65
" Merchants Bank	19	85
"		
Total	1074	66

Illustration No. 39, Deposit Tickets.

§ 103. Instructions for Making a Deposit. The bank teller has many deposits to enter each day, and they should be so arranged as to facilitate his work. If the following instructions are observed, the teller can readily audit the deposit:

¶ 1. *Small Change is put up in Envelopes or Coin Wrappers* provided by the bank. These are usually arranged to contain fifty pennies, forty nickels, fifty dimes, forty quarter dollars or twenty half dollars. The name of the depositor is stamped or written on each package.

¶ 2. *Paper Money is Arranged in Regular Order*, the smaller denominations on top.

¶ 3. *Checks are Arranged* in the order in which they are listed on the deposit ticket; the names of the local banks and the addresses of out-of-town banks should be written at the left on the same line with the amount of the checks.

¶ 4. *Each Check must be Endorsed.* The correct endorsement is, "Pay to the order of," the name of the bank; "For deposit," the name of the firm, and the name of the person who made up the deposit. Thus, if checks are deposited in the Merchants National Bank for W. H. Goodwin, and L. A. Owen makes up the deposit, the endorsement is, "Pay to the order of Merchants National Bank for deposit,

W. H. Goodwin, by L. A. Owen." Endorsements are written on the left-hand end of the check. Hold the check so that it can be read, turn it over by bringing the top towards you, and write the endorsement across the back, about one inch from the left-hand end. (§ 96 and Illustration No. 38.)

¶ 5. *The Total of the Deposit* is entered at the bottom, on the line with "Total," printed on the ticket.

§ 104. Pass Book. The object of this book is to provide a record of all money deposited and withdrawn. The amount of money deposited is entered in the pass book at the time the deposit is made; the amount of each canceled check (vouchers) is entered in it, usually once each month, and the checks returned to the depositor. Some banks render a monthly statement in which case the canceled vouchers are not entered in the pass book. Illustration No. 40 shows the method of keeping the pass book when the canceled vouchers are entered in it, and Illustration No. 41, the form of monthly statement showing the balance in the bank.

In Account with

Dr. MERCHANTS NATIONAL BANK — W. H. Goodwin

Feb.	1	Deposit	1500	Feb.	3	Check	28
	3	"	435 55		5	"	125
	28	"	245 60		8	"	197 10
					13	"	150
					17	"	103 60
					23	"	175
					28	Balance	1402 45
			2181 15				2181 15
Mar.	1	Balance	1402 45				

Illustration No. 40, Pass Book Balanced, February, Introductory Set.

Statement of

W. H. Goodwin

In account with

Merchants National Bank

6 Vouchers Returned

PLEASE EXAMINE AT ONCE { IF NO ERRORS ARE REPORTED WITHIN TEN DAYS THE ACCOUNT WILL BE CONSIDERED CORRECT AND VOUCHERS GENUINE

Feb. 1	Deposit	1500.00	
3	Check		28.00
5	"		125.00
8	"		197.10
13	Deposit	435.55	
	Check		150.00
17	"		103.60
23	"		175.00
28	Deposit	245.60	
	Balance		1402.45

Illustration No. 41, Bank Statement, February, Introductory Set.

§ **105. A Check** is a written order by a depositor on his bank, designating to whom he wishes the bank to pay a part or all the money he has on deposit. No particular form is necessary, but it is better to use the special form prepared by the bank. Checks are usually bound in book form; each is provided with a stub that a permanent record may be kept of all the facts mentioned on the check. See Illustration No. 42.

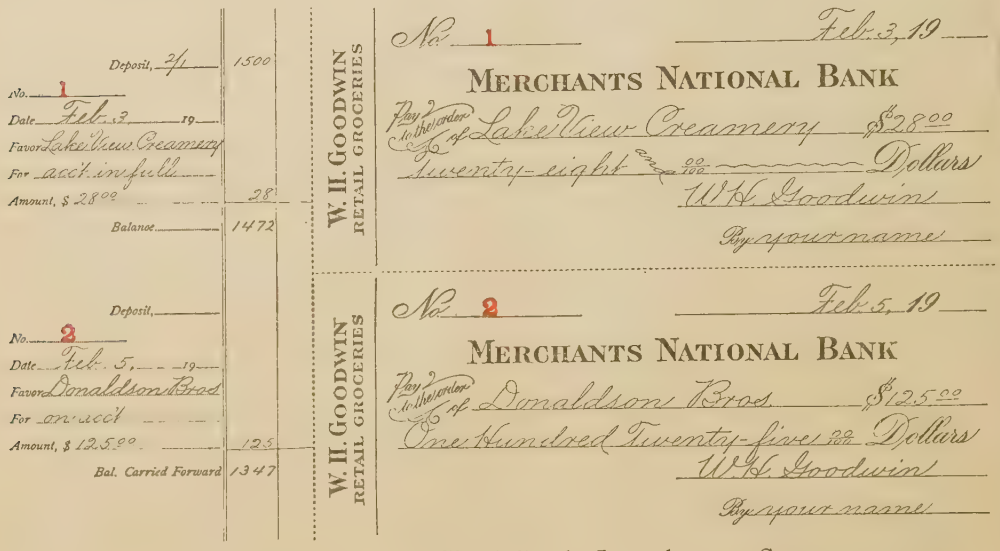

Deposit, 2/1 1500
No. 1
Date Feb. 3 19
Favor Lake View Creamery
For acct. in full
Amount, $ 28 00 28
Balance 1472
W. H. GOODWIN RETAIL GROCERIES
No. 1 Feb. 3, 19
MERCHANTS NATIONAL BANK
Pay to the order of Lake View Creamery $28 00
Twenty-eight 00/100 Dollars
W H Goodwin
By your name
Deposit
No. 2
Date Feb. 5, 19
Favor Donaldson Bros
For on acct
Amount, $ 125 00 125
Bal. Carried Forward 1347
W. H. GOODWIN RETAIL GROCERIES
No. 2 Feb. 5, 19
MERCHANTS NATIONAL BANK
Pay to the order of Donaldson Bros. $125 00
One Hundred Twenty-five 00/100 Dollars
W H Goodwin
By your name

Illustration No. 42, Check Book, Introductory Set.

§ **106. Instructions for Writing a Check.** The stub is a record of the check and should be filled out first; if this is omitted until after the check is written, it may be forgotten. A check should be written in the following order: the date; the number; the name of the person or firm to whom it is issued; the amount in writing; the amount in figures; the signature of the depositor.

¶ 1. *The date* is written at the top and should be the same as the date on which the check is written unless it is post-dated, in which case it is not payable until the date mentioned.

¶ 2. *Each Check and Stub is Numbered* consecutively, beginning with "1", and the number on the check is the same as that on the stub. The check and stub are numbered in order to facilitate the keeping of an accurate record with the bank.

¶ 3. *The Name of the Person or Firm* to whom the check is to be paid is written after "Pay to the order of." This means that the payee may transfer the check by endorsement, if desired. Checks to be cashed by the depositor himself may be made payable to the order of "Cash."

¶ 4. *The Amount* is written in both words and figures, each in a different position. The words and figures should be written so that it is not possible to increase the amount by inserting additional words or figures. Special machines which insert the amount in words or figures with indelible ink may be purchased, and should be used when available. If the words and figures are different, the words govern the amount.

¶ 5. *The Signature* must be identical with that signed by the depositor on the signature card when the account was opened with the bank. If the check is signed by one authorized to do so, the name of this person is written under that of the depositor, preceded by the word "per" or "by."

§ 107. Method of Keeping a Record of Transactions with the Bank. Transactions with the bank are represented by the cash deposited, notes discounted and checks written. While the bank keeps a record of the transactions with its depositors, yet each depositor should also keep a record. A special book may be kept with the bank in which all deposits and checks are entered. However, the best results are obtained by keeping the account on the check stub. As a rule, the check book contains two or more checks to the page, each of which is provided with a stub. This stub is ruled with a money column at the right. The first deposit is entered in this column at the top of the first stub. When the first check is written, the amount is extended into this column and subtracted from the deposit. Each succeeding check is subtracted in the same manner, and each deposit added at the time it is made. See Illustration No. 42.

A list of the currency and checks deposited should be entered on the left of the check stub opposite the abstract record of the deposit, unless a carbon copy of the deposit ticket is retained. A copy of the deposit ticket either on the stub or by carbon enables the bookkeeper to readily account for all cash received, hence facilitates auditing. A complete record of the transactions with the bank may be kept on the back of the stub, if desired. This method will be explained later.

§ 108. Reconciliation of the Bank Account. When the pass book is balanced or monthly statement rendered, as explained in § 104, the depositor should verify the correctness of the bank balance. This is done by comparing each canceled check with the information on the stub which has the same number. If all the checks issued have been paid by the bank, the balance as shown on the stub of the depositor's check book will be the same as the balance in the pass book, or on the statement. If all the checks have not been paid by the bank, it will be necessary to deduct the amount of the unpaid checks from the balance in the pass book; the amount thus obtained should be the same as the balance shown by the check stub.

NOTES RECEIVABLE ACCOUNT.

§ 109. The Object of this Account is to show the amount due the business as evidenced by written obligations; this includes notes (§ 93) signed by others, and drafts accepted (§ 90, ¶ 1) by others.

Debit the Notes Receivable Account:

¶ 1. For the face of each note or accepted draft on hand at the beginning of the business.

¶ 2. For the face of each note or *acceptance received.

¶ 3. For the face of each time draft drawn on a customer and accepted by him.

Credit the Notes Receivable Account:

¶ 4. For the face of each note or accepted draft (§ 90, ¶ 1) when it is paid in full or for partial payments of the same.

¶ 5. For the face of each note or accepted draft discounted.†

¶ 6. For the face of each note or accepted draft transferred.

The debit side is the larger when not in balance.

¶ 7. *The Balance of this Account* shows the value of the notes or accepted drafts belonging to the business. It is shown as a current asset on the Balance Sheet.

¶ 8. *To Close the Notes Receivable Account.* This account is not closed until it balances unless it is necessary to transfer the balance to a new page. If the pay-

*NOTE. Trade acceptances should be shown in a Trade Acceptances Receivable account.

†If notes or drafts discounted at the bank are credited to a Notes Receivable Discounted account (§ 264) the Notes Receivable account is not credited until they are paid.

ment of any note balances the account at a certain point, it is ruled with a single red line; pencil footings are used to show that the totals on each side are equal. If it is necessary to transfer the balance to a new page, the balance is entered on the credit side with red ink, the account footed and ruled with single and double red lines, and the amount forwarded to the new page on the debit side with black ink.

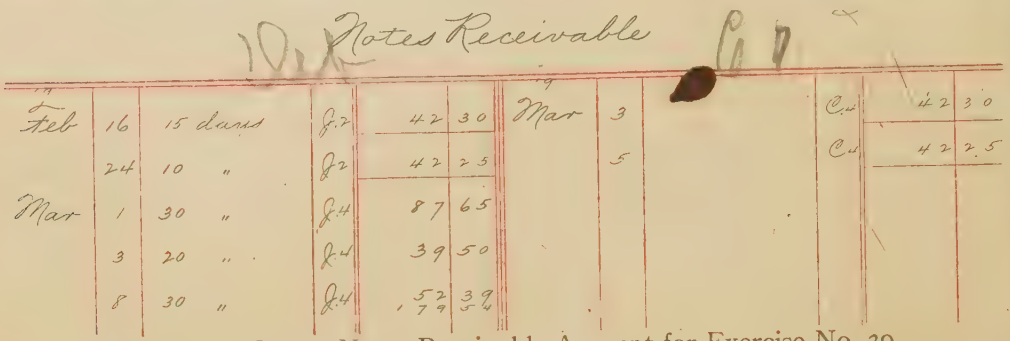


Illustration No. 43, Notes Receivable Account for Exercise No. 39.

Exercises in Notes Receivable Account. Prepare on ledger paper an account for each of these three exercises. Exercise No. 39 is the same as Illustration No. 43. References are to § 109.

Exercise No. 39, Notes Receivable Account.

Feb. 16. Received a fifteen-day note for $42.30 (¶ 2).
24. Received a ten-day note for $42.25.
Mar. 1. Received a thirty-day note for $87.65.
3. Received a twenty-day note for $39.50; received check for $42.30 in payment of note due today (¶ 4).
5. Received check for $42.25 for note due today (¶ 4).
8. Received a thirty-day note for $52.39 (¶ 2).

Exercise No. 40, Notes Receivable Account.

Apr. 5. Received a sixty-day note for $129.62 (¶ 2).
May 6. Received a thirty-day note for $379.59.
12. Received a three-month note for $1,462.30.
June 1. Hall Bros. accepted our draft at ten days for $500.00 on account (¶ 3).
5. Received $379.59 for note due today (¶ 4).
10. Transferred note received April 5 (¶ 6).
11. Received $500.00 for Hall Bros.' draft (¶ 4).
20. Received a ninety-day note for $800.00.
25. Received $700.00 as part payment on note dated May 12 (¶ 4).

Exercise No. 41, Notes Receivable Account.

July 1. At the beginning of the business there were three notes on hand; one for $150.00, dated May 18, due in sixty days; one for $300.00, dated June 25, due in sixty days: and one for $175.00, dated June 29, due in 60 days (¶ 1).
16. Received a ninety-day note for $862.50.
17. Received $150.00 for note due today (¶ 4).
Aug. 9. Received a thirty-day note for $975.80.
18. Received a sixty-day note for $329.48.
20. C. A. Dow accepted our thirty-day draft for $650.00 (¶ 3).

(*Concluded on page 83.*)

(*Exercise No. 41—Continued from page 82.*)

Aug. 24. Received $300.00 in payment of note due.
Sept. 1. Received a sixty-day note for $119.98.
8. Received check for $975.80 in payment of note due today.
10. Received check for $175.00 in payment of note; transferred Dow's acceptance for $650.00 to D. C. Miller, on account (¶ 6).
25. Received sixty-day note for $250.00.
29. Received $862.50 in payment of note.
30. Transferred note for $119.98 to Day Bros., on account (¶ 6).

NOTES PAYABLE ACCOUNT.

§ 110. The Object of this Account is to show the amount owed by the business, as evidenced by written obligations; this includes notes (§ 93) signed by the business and drafts accepted (§ 90, ¶ 1) by the business.

Debit the Notes Payable Account:

¶ 1. With the face of each note or accepted draft when paid in full by the business. A partial payment is debited to Notes Payable and indicated by letter as explained in the note at the bottom of page 14.

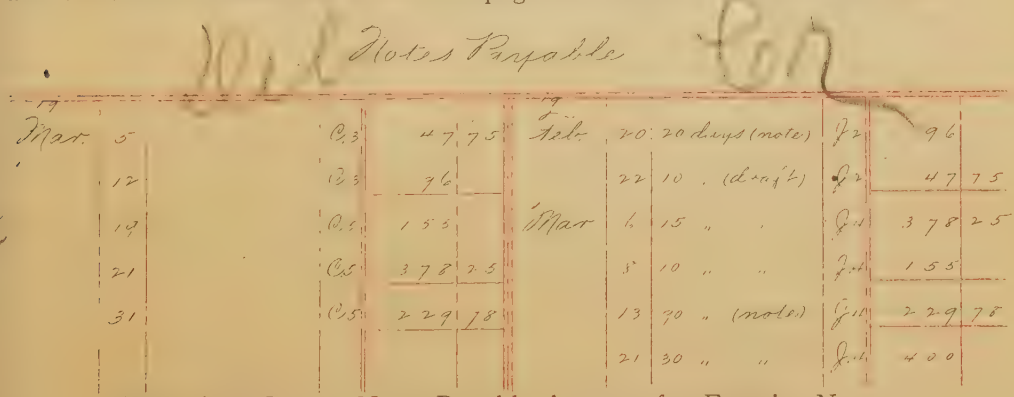
Credit the Notes Payable Account:

¶ 2. For the face of each note owed at the beginning of the business.
¶ 3. For the face of each note signed by the business.
¶ 4. For the face of each time draft accepted.* (If a Notes Payable book is not kept, the time of each note or draft should be written in the explanation column.)

The credit side is the larger when not in balance.

¶ 5. *The Balance of this Account* shows the amount the firm owes on notes and accepted drafts. It is shown as a current liability on the Balance Sheet.

¶ 6. *To Close the Notes Payable Account.* This account is not closed until it balances unless it is necessary to transfer the balance to a new page. If the payment of any note balances the account at a certain point, it is ruled with a single red line; pencil footings are used to show that the totals on each side are equal. If it is necessary to transfer the balance to a new page the difference is entered on the debit side with red ink, the account footed and ruled with single and double red lines, and the amount forwarded to the new page on the credit side with black ink.


Notes Payable

19					19					
Mar.	5	C3	47	75	Feb.	20	20 days (note)	J2	96	
	12	C3	76			22	10 " (draft)	J2	47	75
	19	C3	155		Mar.	6	15 " "	J4	378	25
	21	C5	378	25		8	10 " "	J4	155	
	31	C5	229	75		13	70 " (note)	J4	229	75
						21	30 " "	J4	400	

Illustration No. 44, Notes Payable Account for Exercise No. 42.

*NOTE. Trade acceptances should be shown in a Trade Acceptances Payable account.

Exercises in Notes Payable Account. Prepare on ledger paper an account for each of these three exercises. Exercise No. 42 is the same as Illustration No. 44. References are to § 110.

Exercise No. 42, Notes Payable Account.

Feb. 20. Gave twenty-day note for $96.00, in full of account (¶ 3).
22. Accepted ten-day draft, $47.75, in full of account (¶ 4).
Mar. 5. Paid ten-day draft, $47.75 (¶ 1).
6. Accepted fifteen-day draft in full of account, $378.25 (¶ 4).
8. Accepted a ten-day draft, $155.00, in full of account.
12. Paid twenty-day note for $96.00 (¶ 1).
13. Gave ninety-day note for $229.78, in full of account.
19. Paid ten-day draft, $155.00.
21. Borrowed $400.00 from the bank on thirty-day note (¶ 3); paid fifteen-day draft, $378.25.
31. Prepaid ninety-day note for $229.78 (¶ 1).

Exercise No. 43, Notes Payable Account.

Oct. 1. Gave sixty-day note for $416.29 (¶ 3).
26. Gave thirty-day note for $321.82.
Nov. 11. Gave ninety-day note for $722.80.
25. Paid thirty-day note, $321.82 (¶ 1).
27. Accepted thirty-day draft for $500.00 (¶ 4).
30. Gave thirty-day note for $350.00.
Dec. 16. Paid sixty-day note for $416.29.
19. Gave sixty-day note for $379.62.
20. Paid $200.00 on note given Nov. 11.
21. Accepted ten-day draft for $50.00.
27. Paid thirty-day draft, $500.00.
30. Gave ninety-day note for $411.49.
31. Paid thirty-day note, $350.00.

Exercise No. 44, Notes Payable Account.

Jan. 2. At the beginning of the business we owed two notes, one dated December 24, due in thirty days, for $1,500.00; the other dated December 15, due in sixty days, $1,000.00 (¶ 2).
3. Paid thirty-day note for $1,500.00.
9. Gave sixty-day note for $276.45.
Feb. 1. Gave thirty-day note for $239.80.
14. Paid $1,000.00 note due today (¶ 1), by check for $500.00 and a new note for $500.00 due in sixty days, with interest (¶ 3). (The face of the old note is entered on the debit side, and the new note on the credit side. No record is made of the interest until it is paid.)
28. Gave thirty-day note for $715.29.
Mar. 5. Accepted sixty-day draft for $326.16.
12. Accepted ten-day draft for $584.79.
22. Paid ten-day draft, $584.79.
30. Gave ninety-day note for $298.64.
31. Paid thirty-day note for $715.29.

§ 111. Property Purchased for Use in the Business. In every business it is necessary to purchase certain property which is not to be sold, but is to be used in conducting the business. This includes desks, safes, chairs, shelving, show

cases, scales, horses, wagons, automobiles, machinery and other property that may be needed. There are usually three accounts kept with this kind of property. One of these accounts is illustrated in this set (§ 112); the other two are illustrated in the succeeding sets.

Property of this kind must of necessity decrease in value because of its use. The use of the property will to a certain extent determine the amount of the decrease in value. A typewriter which is in constant use will wear out much more quickly than desks, show cases, shelving, etc.

There are two methods of keeping accounts with property of this kind. One is to have the account show the present value of the property, and the other, to have the account show the cost value. The first method may be used where the amount invested in property of this kind is not large. The second method is better where a considerable amount is invested in this kind of property. The first method is used in this set, while the second method is used in the succeeding sets.

FURNITURE AND FIXTURES ACCOUNT.

§ 112. **The Object of this Account** is to show the value of property purchased for use in the office and storeroom, which includes desks, filing cabinets, typewriters, showcases, scales, etc. A permanent record of each article should be kept either in the explanation column of the account or in a special inventory book.

Debit Furniture and Fixtures:

¶ 1. For the present value of furniture and fixtures on hand at the beginning of the business.

¶ 2. For the cost of any property of this kind purchased.

Credit Furniture and Fixtures:

¶ 3. With the selling price of any property, the value of which was charged to this account.

¶ 4. With the depreciation on account of use at the close of the fiscal period unless this is carried in a special account.

Furniture and Fixtures

19					19				
Feb	12	Desks 3 Chairs 5	C3	40	Feb	28		J3	5
	23	Show Case 60 in	J2	25					

Illustration No. 45, Furniture and Fixtures Account for Exercise No. 45.

¶ 5. *The Difference between the Two Sides of this Account* shows the book value of furniture and fixtures. The value at the beginning of the fiscal period or the cost, the depreciation and the present value are shown on the Balance Sheet.

¶ 6. *To Close the Furniture and Fixtures Account.* This account is not closed unless it is desired to bring the balance down on the same page or forward it to a new page. The balance together with the date and the word "Balance" are entered on the credit side with red ink, the account ruled with single and double red lines, footed with black ink, and the balance carried down on the debit side with black ink, or entered on the debit side of the Furniture and Fixtures account on the new page. Should the business be discontinued, the balance of the account, after the credit has been made for the sale of the property, is charged as an operating cost for the current fiscal period.

Exercises in Furniture and Fixtures Account. Prepare on ledger paper an account for each of these three exercises. Exercise No. 45 is the same as Illustration No. 45. References are to § 112.

Exercise No. 45, Furniture and Fixtures Account.

Feb. 12. Paid cash for desk, $35.00; chair, $5.00 (¶ 2).
23. Bought on account, one show case, $25.00 (¶ 2).
28. The Balance Sheet and Profit and Loss statement are to be made and the books closed. $5.00 deduction is made for depreciation in value (¶ 4).

Exercise No. 46, Furniture and Fixtures Account.

Jan. 1. Furniture and Fixtures on hand valued at $250.00 (¶ 1).
20. Bought 12 chairs for $14.00; bought a typewriter for $100.00.
Mar. 25. Paid for office partition, $36.25; paid for scales, $45.00 (¶ 2).
June 6. Sold desk (on hand January 1) for $26.50 (¶ 3).
30. The Balance Sheet and Profit and Loss statement are to be made, and the books closed. A deduction of $20.94 is made for depreciation in value of furniture and fixtures on hand (¶ 4).

Exercise No. 47, Furniture and Fixtures Account.

July 4. Bought a safe for $150.00 (¶ 2); bought standing desk for $25.00.
Aug. 11. Bought stool for $5.00; bought scales for $40.00.
Sept. 28. Bought six chairs for $9.00; bought filing cases, $100.00.
Oct. 19. Bought typewriter for $100.00; bought three trucks, $25.00.
Nov. 26. Sold one section of filing cases for $16.50 (¶ 3).
Dec. 9. Bought show case, $35.00.
11. Bought two counters and three tables for storeroom, $42.50 (¶ 2).
31. At the time the Balance Sheet is made, a deduction of $25.75 is made for depreciation in value (¶ 4).

QUESTIONS.

1. Define commercial paper. (§ 87.)
2. What is a draft? (§ 88.) A sight draft? (§ 89.) A time draft? (§ 90.)
3. Distinguish between a time draft and a trade acceptance. (§ 90, ¶ 2.)
4. What is a note? (§ 93.) What is the maturity value of a note? (§ 93, ¶ 2.)
5. Name the kinds of commercial paper that are regarded as cash. (§ 94.)
6. Distinguish between an express money order and a postal money order. (§ 94, ¶¶ 4 and 6.)
7. Define endorsements. (§ 95.) Name four endorsements for transfer. (§ 96.)
8. How and by whom should a commercial paper be signed? (§ 99.)
9. What is a bank? (§ 100.) A deposit ticket? (§ 102.) A pass book? (§ 104.)
10. Define a check. (§ 105.) Describe the method of writing it. (§ 106.)
11. Describe the method of keeping an account with the bank. (§ 107.)
12. Describe the method of reconciling the bank account. (§ 108.)
13. What is the object of the Notes Receivable account? (§ 109.)
14. What does the balance show? (§ 109, ¶ 7.)
15. What is the object of the Notes Payable account? (§ 110.)
16. What does the balance show? (§ 110, ¶ 5.)
17. For what purpose may property be purchased by the business? (§ 111.)
18. What is the object of the Furniture and Fixtures account? (§ 112.)
19. Give two debits and one credit to the Furniture and Fixtures account.
20. What does the balance show? (§ 112, ¶ 5.)

INTRODUCTORY SET (Continued).

MARCH.

§ 113. **Introduction.** The work of this month is a continuance of the practice work of February. The same books of account are used, and the same accounts are kept with the addition of Land, Buildings, Building Expense and Revenue, and Interest.

REAL ESTATE.

§ 114. **Real Estate** is a technical term that is applied to immovable property which consists of land, buildings and other improvements which make the land valuable. Real estate may be purchased by a business (a) for a home, or (b) for speculation. When it is purchased as a speculation a separate account should be opened for each property owned.

The purchase price fixes the value of the real estate, and this value does not change except in the case of additional improvements. The value should not be increased by means of an inventory or appraisal for no profit can be realized until it is sold. A distinction should be made between the land and the buildings, because the buildings decrease in value owing to age and use, while the land does not. On account of this distinction their value should be separated at the time of purchase. Accountants recommend that separate accounts be kept with land and buildings. If only one account is kept, their separate value should be indicated by the use of the explanation column. In either case an account termed Building Expense and Revenue should be kept to record all expenses incident to the upkeep of the buildings, and income which may be derived from the rental of any portion of the building.

If the building is to be constructed on land purchased for this purpose, the purchase price of the land together with any additional cost of grading and preparing it for the building, is charged to the Land account. Payments in connection with the construction of the building are charged to a Building Contract account. When the building is completed, the balance of this account is closed into a Buildings account. This is carried on the books as the value of the building, and the depreciation is based on it.

¶ 1. *Depreciation on Buildings.* Depreciation refers to a decrease in value owing to age and use. In the case of buildings the amount of this depreciation depends on the material of which the buildings are constructed. Buildings constructed of concrete will not depreciate as rapidly as those constructed of less substantial material. At the end of each fiscal period a charge should be made for depreciation on the buildings, the amount of which has been determined by the management of the business. The subject of depreciation is thoroughly discussed by a number of leading authorities on accounting, including Montgomery, Dickinson, Hatfield, Salliers and Walton. For a further discussion of the subject the student is referred to these authors.

LAND ACCOUNT.

§ 115. **The Object of this Account** is to show the cost of land purchased by the business. When the real estate is purchased, a separate value is placed on the land and buildings.

The following debits and credits apply to the transactions with land purchased as a home for the business.

Debit the Land Account:

¶ 1. For the cost value of land on hand at the beginning of the business.
¶ 2. For the cost of land purchased.
¶ 3. For the expense required to secure title to the real estate.
¶ 4. For the cost of sidewalk, grading, and other improvements applicable to land.

Credit the Land Account:

¶ 5. For the cost price of land sold or subdivided.*

¶ 6. *The Balance of the Land Account* shows the cost value of the land owned by the business. It represents one of the fixed investments and is shown as a fixed asset on the Balance Sheet. It is usually shown under the title of Real Estate with the land and buildings value shown separate.

¶ 7. *To Close the Land Account.* This account is not closed until all the land has been sold unless it is necessary to carry it forward to a new page. In the first case it is ruled with single and double red lines and footed with black ink. Double lines only may be used when there is but one amount on each side. In the second case, the balance is entered on the credit side with red ink, the account ruled with single and double red lines, and the balance carried forward to a new page; this transfer may be made by a journal entry, in which case the balance would be written with black ink.

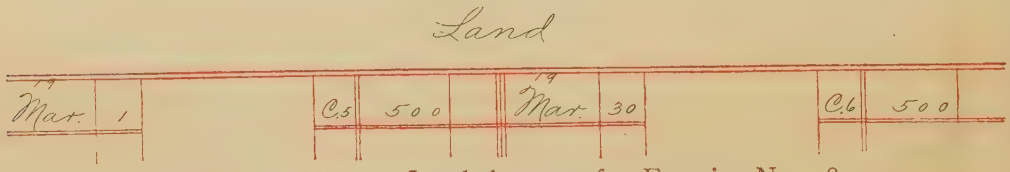


Illustration No. 46, Land Account for Exercise No. 48.

*NOTE. When land is subdivided and separate accounts kept with the subdivisions, the cost of each of these is based on the original cost. To illustrate: if the original cost of a piece of land was $5,000.00, and it is to be divided into five subdivisions, the cost of each subdivision would be shown as $1,000.00.

In no case should land be made to increase in value on account of this subdivision. No profit can arise until the land is sold. When sold at a profit or at a loss, this is shown by a special Profit on Land, or Loss on Land account.

BUILDINGS ACCOUNT.

§ **116. The Object of this Account** is to show the cost of the buildings on land owned by the business. This value is fixed at the time the real estate is purchased. The cost includes the purchase price, and any amount paid for improving, but not for keeping the buildings in repair. If a new roof of the same material is put on a building this does not increase the value of the building because it was needed in order that the building could be used. If the original roof was made of wood, and a more expensive material is used for the new roof, this increases the value of the property, and the difference between the cost of the two kinds of material should be charged to the Buildings account.

Debit the Buildings Account:

¶ 1. For the cost value of buildings on land owned at the beginning of the business.

¶ 2. For the cost of buildings on land purchased, or new buildings erected.

¶ 3. For the proportionate part of the expense required for securing title, unless this is all charged to the Land account, § 115, ¶ 3.

¶ 4. For any improvements applicable to the buildings that increase their value.

Credit the Buildings Account:

¶ 5. For the cost price of property sold.

¶ 6. For any amounts received from the insurance company in payment for buildings destroyed.

¶ 7. * *The Balance of the Buildings Account* shows the cost value of the buildings owned by the business. It represents one of the fixed investments and is shown as a fixed asset on the Balance Sheet. It is usually shown under the title of Real Estate with the land and buildings value shown separately.

¶ 8. *To Close the Buildings Account.* This account is not closed until the buildings represented by the account have been sold, unless it is desired to carry it forward to a new page. In the first case, it is ruled with single and double red lines, and footed with black ink; double lines only may be used when there is but one amount on each side. (See Illustration No. 47.) In the second case, the balance is entered on the credit side with red ink, the account ruled and footed, and the balance carried forward to a new page; this transfer may be made by a journal entry, in which case the balance would be written with black ink.

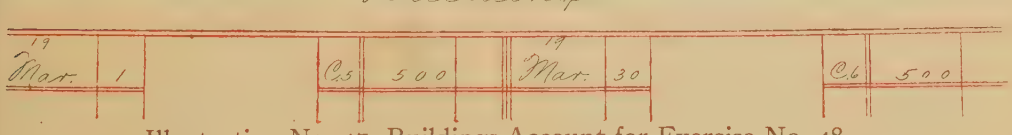


Illustration No. 47, Buildings Account for Exercise No. 48.

* NOTE. The value of the building as shown by this account is not the real cost to the business after a reserve has been set up for depreciation (§ 117) but is the difference between the cost and the amount charged off on account of use and decrease in value due to age. For this reason, the amount of the reserve is deducted from the cost of the building to show the present value; the cost, the reserve, and the present value are shown on the Balance Sheet.

BUILDING EXPENSE AND REVENUE ACCOUNT.

§ 117. **The Object of this Account** is to show the cost of maintaining the buildings and the income from rent. When separate accounts are kept with each piece of property owned, an Expense and Revenue account should be kept with each.

Debit the Building Exp. and Rev. Acct.

¶ 1. For amounts paid for maintaining the buildings; such as, painting, papering, roofing, reflooring, etc.
¶ 2. For the cost of insurance on buildings.
¶ 3. For the amount paid for taxes.
¶ 4. For depreciation on buildings. (At the same time credit the Reserve for Depreciation of Buildings account. § 23.)

Credit the Building Exp. and Rev. Acct.

¶ 5. For amounts received in payment for rent.

¶ 6. *The Difference Between the Two Sides of this Account* shows the cost of the use of the buildings to the business. It may be shown as an operating expense, or the debit side as an operating cost and the credit side as an income on the Profit and Loss statement.

¶ 7. *To Close the Building Expense and Revenue Account.* This account is closed when the ledger is closed, or when it is necessary to forward it to a new page. When the journal entry made to close the profit and loss accounts at the close of the fiscal period has been posted, this account will balance and is ruled with single and double red lines and footed with black ink. When it is necessary to transfer the account to a new page, it is ruled with single and double red lines and footed with black ink and the totals of each side transferred to the account on the new page. "Carried Forward" is written on the line with the totals on the old page, and "Brought Forward", on the new page. The pages should be indicated for reference.

NOTE. When real estate is purchased as an investment instead of for the use of the business, the Expense and Revenue account will show an income and not an operating cost. In this case it would show a credit balance, and be listed among the profits instead of the operating costs.

Building Expense and Revenue

19					19				
Mar.	6	Repairs	C5	25	Mar.	31	Profit + Loss	J5	25

Illustration No. 48, Building Expense and Revenue Account for Exercise No. 48.

Exercises in Accounts with Real Estate. Prepare on ledger paper an account with Land, Buildings, and Building Expense and Revenue for each of these three exercises. Exercise No. 48 is the same as Illustrations Nos. 46, 47 and 48. Accounts that balance are to be ruled as in the illustrations.

Exercise No. 48, Land, Buildings, and Building Expense and Revenue Accounts.

Mar. 1. Paid $1,000.00 for storehouse and lot; value of land, $500.00; value of building, $500.00 (§ 115, ¶ 2, and § 116, ¶ 2).
6. Paid $25.00 for repairs on building (§ 117, ¶ 1).
30. Sold the property for $1,000.00 (§ 115, ¶ 5, and § 116, ¶ 5).

Close the accounts as in Illustrations Nos. 46, 47 and 48.

Exercise No. 49, Land, Buildings, and Building Expense and Revenue Accounts.

Aug. 1. At the beginning of the business, owned real estate valued at $3,500.00; land, $2,000.00; building, $1,500.00 (§ 115, ¶ 1, and § 116, ¶ 1).
19. Paid for building new warehouse, per contract, $1,000.00 (§ 116, ¶ 2).
20. Paid for new roof, $150.00 (§ 117, ¶ 1).
31. Paid for insurance on building, $40.00 (§ 117, ¶ 2.)
Sept. 1. Received $15.00 for rent of space on second floor (§ 117, ¶ 5).
12. Paid for painting floor, $12.50.
19. Paid for installing elevator, $800.00 (§ 116, ¶ 4).
20. Received $10.00 for rent of space on second floor.
Oct. 9. Paid for door, $9.75 (§ 117, ¶ 1).
28. Paid for sidewalk, $75.00 (§ 115, ¶ 4).
Nov. 1. Received $15.00 for rent of space on second floor.
Dec. 1. Received $15.00 for rent of space on second floor.

Close the Building Expense and Revenue account into the Profit and Loss account.

Exercise No. 50, Land, Buildings, and Building Expense and Revenue Accounts.

Jan. 1. Paid $3,000.00 for real estate, consisting of a storehouse and lot; value of land, $1,200.00; value of building, $1,800.00 (§ 115, ¶ 2, and § 116, ¶ 2).
1. Paid our attorney $25.00 for looking up the title.
Debit Land for $10.00 and Buildings for $15.00.
5. Paid $26.00 for repainting the outside of the building (§ 117, ¶ 1).
7. Paid $19.00 for insurance on building (§ 117, ¶ 2).
9. Paid $12.00 for new steps (§ 117, ¶ 1).
Feb. 1. Received $5.00 rent for storage space (§ 117, ¶ 5).
5. Paid $150.00 for new porch as per contract (§ 116, ¶ 4).
Mar. 1. Received $5.00 for storage space.
5. Sold the vacant lot adjoining the one on which the building is located, for $900.00; estimated cost $600.00.
Credit Land for $600.00 and a special account called Profit on Land for $300.00.
6. Paid for repairing roof, $5.00 (§ 117, ¶ 1).
Apr. 1. Received $5.00 for storage space.
12. Paid for new floor, $8.50 (§ 117, ¶ 1).
May 1. Received $5.00 for storage space.
9. Paid $125.00 for a sidewalk (§ 115, ¶ 4).
June 1. Received $5.00 for storage space.
6. Paid for repairing floor, $4.00
July 1. Received $5.00 for storage space.

Close the Profit on Land account and the Building Expense and Revenue account into the Profit and Loss account.

INTEREST.

§ 118. **Interest** is the use of money. The premium paid or received for this use is also referred to as interest. To illustrate: A borrowed $100.00 from B on twelve months' time, and at the end of the year paid $106.00, the principal and the interest. A paid $6.00 for the use of the money borrowed, hence this amount is an interest cost to him; B received $6.00 for the use of the money loaned, hence this amount is interest earned for him.

¶ 1. *Discount.* Discount is interest paid or collected in advance. If, when A, in the illustration above, borrowed the money from B, he had received only $94.00, and agreed to pay $100.00 at the end of the twelve months, the $6.00 would have been interest, because it was the premium paid for the use of the money. It is customary with banks to collect the interest in advance. This can be done by deducting it from the face of the paper, and crediting the depositor with the proceeds, or requiring the depositor to give his check for the interest and credit him with the face of the paper. To illustrate: A borrowed $500.00 from his bank, giving his note payable in ninety days from date, *as evidence of the obligation.* The bank charges him eight per cent interest. When he presents his note for credit, he will either give the bank his check for $10.00 and receive credit for $500.00, or receive credit for only $490.00. In either case the $10.00 is regarded as interest. Interest paid in advance may be termed "Discount," but it is better to consider all amounts paid for the use of money as "Interest," whether the amounts are paid at the time the debt is created or at the time it is paid.

Some authors distinguish between interest paid in advance and interest paid at maturity by designating the former as "discount," and the latter as "interest," but it is considered the better practice to treat all premiums paid for the use of money as interest, and let the Interest account show the results of these transactions. The better practice is followed in the discussion of interest in this text.

¶ 2. *Legal Rate.* To prevent unreasonable charges for the use of money, the various states have enacted laws fixing the rate that may be collected; this is termed the legal rate. Some states provide that a higher rate may be collected if mentioned in the contract. This is termed the contract rate. Both the legal and the contract rate are based on a fixed charge for one year; thus 6% indicates that $6.00 may be collected for each $100.00 for one year.

¶ 3. *Time.* The time is the number of days, months or years for which interest is to be calculated. In the case of a note the time is stated. A note dated March 10, due in 90 days, would be due June 8. The same note if payable in three months would be due June 10.

¶ 4. *Method of Calculating Interest.* A business year is regarded as 360 days—12 months, 30 days in each month. Since 6% is the legal rate in the majority of states, and it is an aliquot part of 60, there are many rules for calculating interest based on this. One of the simplest methods, especially where the time is less than 100 days, is as follows: Multiply the principal with the decimal place moved three places to the left by the result obtained by dividing the number of days by six. The result is the interest at 6%.

To illustrate: Calculate the interest on $942.75, for 48 days, at six per cent. Move the decimal point three places to the left, multiply this amount by (48 divided by 6) 8. The result is 754,200. As there are five decimal places in the multiplicand, there must be five decimal places in the product, which gives the interest, $7.54. The fraction to the right of this is less than one-half, and is not used. If it had been one-half or more, the interest would have been $7.55. Do not drop the fraction until the final result is obtained.

When the rate of interest is not 6%, divide the amount of the interest at 6% by six; this gives the interest at 1%. Multiply this by the given rate, and the result is the interest on the given amount at the given rate. To illustrate: Calculate the interest on $368.95 for 48 days, at 8%: $368.95 with the decimal point moved three places to the left is .36895. $48 \div 6 = 8$; $.36895 \times 8 = 2.95160$ (interest at 6%). $2.95160 \div 6 = .49193$ (interest at 1%) $.49193 \times 8 = 3.93544$ or $3.94, interest on $368.95 for 48 days, at 8%.

INTEREST ACCOUNT.

§ 119. **The Object of this Account** is to show the premium paid and received for interest. The debit side shows the interest costs and the credit side, the interest earnings. If desired, two accounts may be kept, one with interest paid and the other with interest earned, but this is not advised unless there are numerous transactions affecting the Interest account. It is the better practice to keep only one account when all the information can be obtained from it.

Debit the Interest Account:

¶ 1. For amounts paid by us as interest at the time the obligation is due.

¶ 2. For amounts paid by us as interest when paid at the time the loan is made (in advance). This includes accrued interest on interest-bearing notes accepted by us.

¶ 3. For amounts deducted from notes we discount (transfer to others), which is the difference between the maturity value of the note and the amount we receive.

Credit the Interest Account:

¶ 4. For amounts paid to us as interest when paid at the maturity of the obligation.

¶ 5. For amounts paid to us as interest when paid in advance. This includes accrued interest on interest-bearing notes transferred by us.

¶ 6. For amounts deducted for prepaying notes which we owe, or allowed us on notes we purchase, which is the difference between the maturity value of the note and the amount we pay, or for which we give credit.

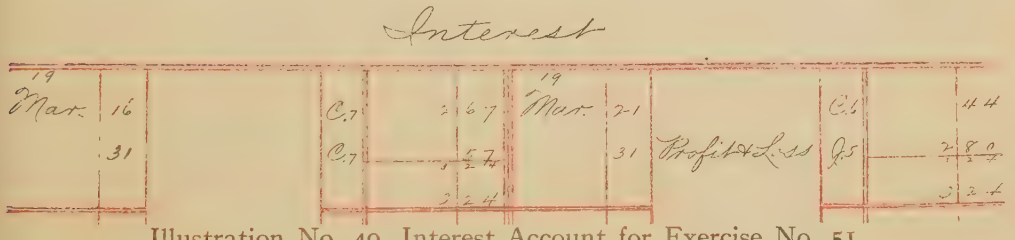


Illustration No. 49, Interest Account for Exercise No. 51.

¶ 7. *The Difference Between the Two Sides of the Interest Account* shows the excess of interest costs if the debit side is the larger, or earnings if the credit side is the larger. It is customary to show the total of the credit side as an income and the total of the debit side as a deduction from income on the Profit and Loss statement. If desired, the balance of the account may be shown on the Profit and Loss statement; this is permissible when the amounts involved are small.

¶ 8. *To Close the Interest Account.* This account is closed when the ledger is closed, or when it is necessary to forward it to a new page. When the journal entry made to close the profit and loss accounts at the close of the fiscal period has been posted, this account will balance and is ruled with single and double red lines and footed with black ink. When it is necessary to transfer the account to a new page, it is ruled with single and double red lines and footed with black ink and the totals of each side transferred to the account on the new page. "Carried Forward" is written on the line with the totals on the old page, and "Brought Forward," on the new page. The pages should be indicated for reference.

¶ 9. *Accrued Interest.* At the close of the fiscal period there may be interest due the business on notes which are not due, or accounts that are past due. In the

same way the business may owe interest on notes that are not yet due. The former is treated as an accrued asset, and the latter, as an accrued liability.

¶ 10. *Interest Paid in Advance.* At the close of the fiscal period there may be interest paid in advance on account of paper discounted at the bank, but not yet due. In the same way the business may have purchased paper and deducted the discount at the time of the purchase. The former is treated as a deferred charge to income or to operations, and the latter as a deferred credit to income.

Exercises in Interest Account. Prepare on ledger paper an Interest account for each of these exercises. Exercise No. 51 is the same as Illustration No. 49. References are to § 119.

Exercise No. 51, Interest Account.

Mar. 16. Borrowed $400.00 from the bank on my note at 30 days. Gave them a check for $2.67, in payment for interest at 8% (¶ 2).
21. Received check from P. A. Banesforth for $88.09, in payment for note, $87.65, and interest on the same, 44 cents (¶ 4).
31. Gave the bank a check in payment of note due Dick, McMillan & Co., $229.78, and interest on same to date, 57 cents (¶ 1).
Close the balance of this account into the Profit and Loss account as in Illustration No. 49.

Exercise No. 52, Interest Account.

Apr. 1. Gave the bank check for $7.88, interest on discounted note (¶ 3).
27. Prepaid our note and deducted $2.63, interest to maturity (¶ 6).
May 16. Gave the bank a check for $7.50, interest on note renewed (¶ 1).
27. Robert Clark prepays his note of $200.00 by check for $197.50 (¶ 3).
Discounted Anderson Bros.' note for $400.00 at the bank, receiving credit for $393.67, the net proceeds (¶ 3).
June 5. Prepaid our note of $500.00 by check for $482.90 (¶ 6).
30. Paid $4.50, interest on note due today (¶ 1).
Close the balance of this account into the Profit and Loss account.

Exercise No. 53, Interest Account.

July 17. Gave the bank a check for $10.00, to pay discount on note (¶ 3).
27. Received check from Davis Bros. for $287.65, in payment for balance due, $283.27, and the interest (¶ 4).
31. Received $6.00, interest on note renewed by a customer (¶ 4).
Aug. 17. Gave the bank a check for $20.00, to pay interest on note renewed (¶ 2).
27. Gave Smith & Jones a check for $726.40, in payment of account due them, $718.65, and interest (¶ 1).
Sept. 9. Received $5.60 from A. B. Day, interest on note he owes (¶ 4).
30. Received $16.65 from D. L. Morris, interest due us (¶ 4).
Oct. 27. Discounted M. B. Jacobs' note for $552.65 at the bank, and received credit for the proceeds, $549.27 (¶ 3).
Nov. 6. Gave W. H. Davis a check for $206.50, in payment of $200.00 note due today, and interest on the same (¶ 1).
Dec. 9. Received check from A. H. Bowers for $22.50, interest due us (¶ 4).
28. Borrowed $2,000.00 at the bank, and received credit for the proceeds, $1,960.00 (¶ 3).
Close the balance of this account into the Profit and Loss account.

§ 120. Compound Journal Entries. A transaction may affect more than two accounts; that is, two kinds of property may be purchased, and only one given in exchange for it, or one kind of property purchased and two or more kinds given in exchange for it. This same principle applies with services. Thus, a journal entry may be made up of one or more debits, and one or more credits. No matter how many debits and credits there may be, the total of the debits must equal the total of the credits, because the value of the property or services received always equals the value of the services or property given in exchange. The illustrations below show the form of compound journal entries.

Exercise No. 54, Compound Journal Entries.

Make the required journal entries for the following transactions for March 1–12. Prove the interest calculations, using 6% unless the rate is stated. Consider 28 days in February.

Mar. 1. Received from Young & Doyle, on account, a ninety-day note, dated Feb. 16, for $265.50, less $3.41, interest to maturity.

March 1, 19

Notes Receivable	265 50		
Young & Doyle			262 09
Interest			3 41
Received their 90-day note dated Feb. 16, less discount, on account.			

2. Borrowed $1,000.00 from the bank on our ninety-day note. Received credit for net proceeds, $980.00, face of note less $20.00, interest at 8%.

2

Cash	980		
Interest	20		
Notes Payable			1000
Discounted our 90-day note dated today less 8% discount.			

3. C. H. Granger owes us $414.56. He settles in full by transferring Robert Dow's ninety-day note, dated Jan. 16, for $272.35, less $2.00 discount to maturity, and his thirty-day note for $144.21.

3

Notes Receivable	272 35		
Notes Receivable	144 21		
C. H. Granger			414 56
Interest			2
Received Robert Dow's 90-day note dated Jan. 16, and C. H. Granger's 30-day note dated today in full of account.			

4. We owe Donaldson Bros. $375.62. We settle in full by transferring L. D. Arnold's three-month note (Notes Receivable) for $250.00, dated Feb. 12, less $3.83, 8% discount to maturity, and our thirty-day note for $129.45. (Debit § 37, ¶¶ 4 and 2 and § 119, ¶ 3; credit, § 109, ¶ 6, and § 110, ¶ 3.)

5. We hold a four-month note for $375.00, dated Feb. 12. Discounted it at 8% and received $366.75 cash for the proceeds. (Debit, § 34, ¶ 2, and § 119, ¶ 3; credit, § 109, ¶ 5.)

(*Concluded on page 96.*)

(*Exercise No. 54—Continued from page 95.*)

Mar. 6. We owe D. H. Addison $614.65. We make settlement as follows: Our note dated today, due in three months, for $200.00, W. H. Day's ninety-day note (Notes Receivable) for $300.00, dated February 28, less $4.20 discount, and our check for $118.85. (Debit, § 37, ¶¶ 2, 4 and 1, and § 119, ¶ 3; credit, § 110, ¶ 3, § 109, ¶ 6, and § 34, ¶ 3.)

8. Mays Bros. owe us $412.50. They settle this by transferring W. H. James' four-month note, $275.00, dated Jan. 3, with interest $5.50, from date, less discount, $2.62, and their sixty-day note for $134.62. (Debit, § 109, ¶ 2, twice, § 119, ¶ 2; credit, § 119, ¶ 6, and § 36, ¶ 5.)

9. Borrowed $1,000.00 from the bank on our note dated today, and due in four months. Gave them check for the interest, $20.00, and received credit for $1,000.00, the face of the note. (Debit, § 34, ¶ 2, and § 119, ¶ 2; credit, § 110, ¶ 3, and § 34, ¶ 3.)

10. We owe a note for $500.00, dated Jan. 9, and due in six months. The holder accepts our check for $489.92, which is the amount of the note, less $10.08, 6% interest for the remaining time. (Debit, § 110, ¶ 1; credit, § 34, ¶ 3, and § 119, ¶ 6.)

11. Received credit at the bank for $308.48, proceeds of Jones Bros.' sixty-day acceptance (§ 90, ¶ 1) for $312.65.

12. Paid our note for $1,000.00, due at the bank today as follows: Our ninety-day note for $500.00 and our check for $510.00, balance due on the old note and $10.00 interest on the new note; rate of interest, 8%.

QUESTIONS.

1. Define real estate. (§ 114.)
2. What is meant by the depreciation on buildings? (§ 114, ¶ 1.)
3. How is depreciation provided for? (§ 114, ¶ 1.)
4. What is the object of the Land account? (§ 115.)
5. What does the balance show?
6. What is the object of the Buildings account? (§ 116.)
7. What does the balance show?
8. What is the object of the Building Expense and Revenue account? (§ 117.)
9. What does the balance show?
10. What is interest? (§ 118.)
11. What is meant by the legal rate? (§ 118, ¶ 2.)
12. What is meant by time, used in connection with interest? (§ 118, ¶ 3.)
13. Give one method of calculating interest. (§ 118, ¶ 4.)
14. What is the object of the Interest account? (§ 119.)
15. Give three debits and three credits to this account. (§ 119, ¶¶ 1–6.)
16. What does the balance show?
17. How is the balance shown on the Profit and Loss statement? (§ 119, ¶ 7.)
18. How is the Interest Account closed?
19. What is meant by accrued interest? (§ 119, ¶ 9.)
20. How is it treated at the close of the fiscal period? (§ 119, ¶ 9.)

Part Two—Partnership.

RETAIL HAY, GRAIN AND FEED BUSINESS, C. W. KEELAND & CO., PROPRIETORS.

APRIL AND MAY

§ 121. **Introduction.** The object of this set is to illustrate the application of the principles of accounting in a business conducted as a partnership, and to give further practice in the classification of accounts, and the recording of transactions. It presents accounts with partners, fixed assets and reserves, trading accounts, operating expenses, adjusting entries at the close of the fiscal period, special sales book, purchases book and cash book, special business forms and important general information.

A sufficient number of transactions is given to enable the student to appreciate the importance of accuracy, neatness, and a systematic record. He must understand not only the principles of accounting, but also their practical application, in order to make his services valuable to himself and others.

The Transactions to be Recorded are separate from the discussion of the principles (§§ 122–186), and may be represented by incoming vouchers (reproduced business papers) or a printed record. The final results are the same with either method.

PARTNERSHIP.

§ 122. **A Partnership** is the relation existing between two or more persons who have associated their time, labor, skill and capital in some business enterprise. The partners are the persons who have entered into the agreement to form a partnership.

§ 123. **The Object of Forming a Partnership** is the mutual benefit of all interested. The qualifications and natural ability of each person differ widely. One seldom possesses all the requirements for an ideal business man. For this reason, the association of two or more as partners is often very desirable. A shrewd buyer, a good salesman, and an efficient collector, will form a partnership that is sure to succeed. While the necessary capital for conducting the business is usually the chief incentive to the formation of a partnership, yet the natural ability of each partner should always be considered, especially if he is to take an active part in the business.

§ 124. **The Capital of a Partnership** is the amounts invested by the partners, either at the beginning or at subsequent times, and the accrued profits. This property does not belong to any one of the partners, either as a whole or a part, but belongs to all of them in common. If a dispute arises between the partners, and no agreement can be effected, it will have to be settled by a court of equity, as partners can not sue each other in a court of law.

§ 125. **The Articles of Copartnership** is the agreement or contract entered into by the partners at the beginning of the business, and must conform to the laws of the state in which it is made. This agreement should be in writing, and include the following: the *time* the partnership is to continue, the *name* under which the partners will do business, the *amount* invested by each, the *place* of business, the *nature* of the business, the *duties* of each partner, the amount to be *withdrawn* by each partner, the *division* of the profits, and such *special* conditions as may be deemed necessary. Each partner signs the articles of agreement and retains a copy.

¶ 1. *The Time.* Unless the specific time is mentioned, the court will assume that the partnership is to exist for one year, and it may be dissolved at the end of a year if any partner asks for a dissolution. For this reason, the number of years that the partnership is to exist should be stated.

¶ 2. *Name.* The partnership can do business under any name that the partners may select, provided this name does not interfere with the right of someone else. As a rule, the firm name contains the names of the partners who are most active in the business. The firm name of Jones, Smith & Co. does not necessarily mean that there are more parties interested in the business than Jones and Smith, except in a few states where the law does not permit the use of the word "Company" unless it is represented by one or more persons. The Union Manufacturing Co. might be selected as a name for the partnership, without mention of the name of any individual connected with it. Since each partner is interested in the success of the business, and his personal influence is worth something to the business, the names of the partners should be used to form the firm name.

¶ 3. *Amount Invested.* This refers to the amount invested at the beginning of the business, and any subsequent investments. The property invested is usually cash, but may be any other property, either tangible or intangible, that the partners agree to accept. Sometimes the personal influence or ability of one particular partner is accepted as his investment. A full description of the investment at the beginning should be outlined in the agreement that there may be no misunderstanding.

¶ 4. *Place of Business.* This refers to the city or town in which the partners are to do business, and may include the street and number of the building where the business is to be located.

¶ 5. *Nature of the Business.* It is better to describe in detail the nature of the business to be conducted, so that there will be no occasion for dispute.

¶ 6. *Duties.* A general outline of the duties to be performed by each partner should be specifically stated in the agreement. Each partner should be assigned the work best suited to his natural ability. Unless the duties of each partner are outlined in the agreement, there is almost sure to be trouble, because someone must of necessity assume leadership, and too often, the one who is least qualified to do this, feels that he is the one that should do it.

¶ 7. *Salaries.* As a rule, no partner is allowed to withdraw any part of his investment without the written consent of the other partners. If a partner is permitted to do so, this condition should be specifically stated. Each partner is usually allowed a salary for his services. The amount of this should be stated, so that there will be no dispute. This is a very important part of the agreement, and should be stated clearly.

¶ 8. *Division of the Profits.* Unless the agreement specifically states the proportionate part of the profit each partner is to receive, the court will assume that each partner is to have an equal part. For this reason, the agreement should state the proportionate part of the profit each partner is to receive.

¶ 9. *Special Conditions.* The partners may include in the agreement any conditions that are not contrary to law. As the agreement is each partner's understanding of the conditions under which the partnership is to exist, everything should

be mentioned so that there will be no occasion for a misunderstanding. Each partner owes it to the business to see that his private affairs do not become involved. For this reason, each partner should agree not to become surety for anyone, or engage in any other business. The law regards the interest of each partner as property which may be sold to pay his obligations, no matter what agreement he may have with the other partners regarding this.

§ 126. **Bookkeeping for a Partnership** does not differ from that for an individual unless the nature of the business is different. The accounts are the same with the exception of those which show the investment. This will be shown in two or more capital accounts instead of one. The distribution of the net profit or net loss for each fiscal period is determined by the articles of copartnership, hence the Profit and Loss account at the close of the fiscal period will be closed into two or more accounts instead of one.

¶ 1. *Income Tax.* According to the 1918 Revenue Law passed by Congress and signed by President Wilson, February 24, 1919, "every partnership shall make a return for each taxable year, stating specifically the items of its gross income and the deductions allowed by this title," and this "shall be sworn to by any one of the partners" (Sec. 224). However, the partnership in itself is not required to pay tax, but "individuals carrying on business in partnerships shall be liable for income tax only in their individual capacity" (Section 218). The accounts outlined on page 100 are arranged for the purpose of providing accurate information relative to the income tax statement.

ACCOUNTS WITH PARTNERS.

§ 128. **Separate Accounts** should be kept with each partner, and, on account of the income tax provision, capital invested should be shown in one account and the withdrawals against salary in another account. The nature of the capital and personal accounts of the partners is the same as those showing the investment, and withdrawals against salary in a business conducted by an individual. This means that there should be at least two accounts with each partner.

PARTNER'S CAPITAL ACCOUNT.

§ 129. **The Object of this Account** is to show the interest of the partner in the business. The total of all the Partner's Capital accounts represents the total investment in the business.

Debit the Partner's Capital Account:

¶ 1. For debts owed by him at the beginning of the business and assumed by the business.

¶ 2. For amounts withdrawn from the capital invested.

¶ 3. For the debit excess of his Personal account, if that account is closed into the Capital account.

¶ 4. For his share of the loss as shown by the debit excess of the Profit and Loss account at the close of the fiscal period.

Credit the Partner's Capital Account:

¶ 5. For his investment at the beginning of the business.

¶ 6. For all subsequent investments.

¶ 7. For the credit excess of his Personal account, if that account is closed into the Capital account.

¶ 8. For his share of the net profits as shown by the credit excess of the Profit and Loss account at the close of the fiscal period, except as explained in § 130, ¶ 6.

¶ 9. *The Balance of the Partner's Capital Account* shows the net amount he has invested, and at the close of the fiscal period, after the Profit and Loss account is closed, it shows his Present Capital. His Present Capital is shown on the Balance Sheet in connection with the capital of the other partners as the difference between the assets and liabilities.

(*Concluded on page 101.*)

OUTLINE OF ACCOUNTS USED IN THE PARTNERSHIP SET.

§ 127. **The Outline** below includes all accounts made necessary by recording the transactions for April, May and June, the Partnership Set. These are discussed as they are introduced, except those kept in the preceding set. This classification is based on that given in §§ 24-31.

- Current Assets
  - Cash.
  - Inventory
    - Merchandise in stock.
    - Merchandise on consignment.
  - Notes Receivable.
  - Accounts Receivable.
  - Accrued Assets.
- Fixed Assets
  - Office Equipment.
  - Store Fixtures.
  - Delivery Equipment.

Deferred Charges to Operations.

- Current Liabilities
  - Notes Payable.
  - Accounts Payable.
  - Accrued Liabilities.
- Valuation
  - Reserve for Depreciation of Office Equipment.
  - Reserve for Depreciation of Store Fixtures.
  - Reserve for Depreciation of Delivery Equipment.
  - Reserve for Doubtful Accounts.
- Capital
  - C. W. Keeland Capital.
  - C. W. Keeland Personal.
  - A. D. Munson Capital.
  - A. D. Munson Personal.
  - C. A. Howell Capital.
  - C. A. Howell Personal.
- Trading
  - Inventory.
  - Purchases.
  - Freight In.
  - Purchases Discount.
  - Sales.
  - Sales Rebates and Allowances.
  - Sales Discount.
- Operating
  - Selling Expense.
  - Traveling Expense.
  - Loss on Doubtful Accounts.
  - General Administrative Expense.
- Special Profit and Loss
  - Interest.
  - Commission.
  - Loss on Dead Horse.

(§ 129—*Continued from page 99.*)

¶ 10. *To Close the Partner's Capital Account.* This account is not closed until all the other accounts, required to be closed at the end of the fiscal period, have been closed into the Profit and Loss account, and that account closed into the Capital accounts. (§ 27.) It will then show all of his investments, withdrawals, etc., also his share of the net profit or loss. The balance, which is his present capital, is entered on the debit side with red ink as follows: the date of closing, the words "Present Capital," and the amount of the balance. The account is ruled with single and double red lines, footed with black ink, and the "Present Capital" brought down on the credit side with black ink under date of the following business day.

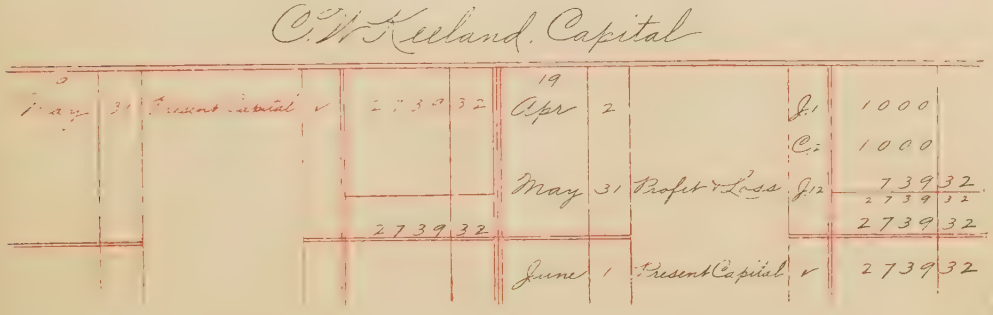


Illustration No. 50, Capital Account for Exercise No. 55.

PARTNER'S PERSONAL ACCOUNT.

§ 130. **The Object of this Account** is to show the result of those transactions with a partner which do not affect his Capital account. These include withdrawals for salary, profit set aside for withdrawal, merchandise taken out of stock for private use, amounts advanced to be used in the interest of the business, and other similar transactions with partners.

Debit the Partner's Personal Account:

¶ 1. For amounts withdrawn which may be (a) check payable to himself; (b) check payable to someone else, but to be charged to him, or (c), currency taken from the cash register or petty cash drawer.

¶ 2. For merchandise taken out of stock for his private use.

¶ 3. For amounts advanced to be used in the interest of the business.

Credit the Partner's Personal Account:

¶ 4. For his salary at the end of each month.

¶ 5. For amounts paid out of funds advanced to him (¶ 3) or his private funds in the interest of the business.

¶ 6. For that part of the profit to be withdrawn from the business.

¶ 7. *The Balance of the Partner's Personal Account* is the amount due the partner for services rendered, or due the business on account of overpayment. A debit balance indicates that the partner has overdrawn his salary or that part of the profit which may have been credited to his personal account for withdrawal. A credit balance indicates that the partner has not withdrawn all of his salary or that

part of the profit credit to his personal account for withdrawal. The balance will appear on the Balance Sheet as a deduction from or addition to the Capital account. The balance may be shown as an asset or a liability in which case it would appear on the Balance Sheet after all other assets or liabilities have been listed. The better plan is to treat it as a part of the Capital account and list on the Balance Sheet as in Illustration No. 83.

¶ 8. *To Close the Partner's Personal Account.* This account is not closed unless it is necessary to transfer the balance to a new page, or to the Partner's Capital account. The balance is entered on the smaller side with red ink, the account ruled with single and double red lines, and footed with black ink. The balance is entered with black ink on the opposite side of the account into which it is closed; the pages should be indicated for reference.

C. W. Keeland, Personal

'19						'19				
Apr	11		C.3	35		Apr.	30		J.6	100
	21		C.5	25		May	31	55.30	J.12	100
May	3		J.7	12	05					
	12		C.7	25						
	24		J.10	10	80					
	26		C.9	20						
	30		C.9	16	85					

Illustration No. 51, Personal Account for Exercise No. 55.

Exercises in Partner's Accounts. Prepare on ledger paper a Capital and a Personal account with each partner in these three exercises. The transactions with C. W. Keeland in Exercise No. 55 are the same as Illustrations Nos. 50 and 51. References are to §§ 129 and 130.

Exercise No. 55, Capital and Personal Account with Two Partners.

Apr. 2. C. W. Keeland and A. D. Munson form a partnership for the purpose of engaging in the retail hay, grain, feed and coal business. C. W. Keeland invests coal on hand valued at $1,000.00, and cash, $1,000.00; A. D. Munson invests cash, $2,000.00 (§ 129, ¶ 5).

11. C. W. Keeland withdraws $35.00, and A. D. Munson $25.00 (§ 130).

21. Each partner withdraws $25.00.

30. Each partner is credited with $100.00, his salary for the month (§ 130.)

May 3. A. D. Munson takes merchandise out of stock valued at $9.47, and C. W. Keeland, merchandise valued at $12.05 (§ 130, ¶ 2).

12. C. W. Keeland withdraws $25.00 and A. D. Munson, $20.00.

24. A. D. Munson takes merchandise out of stock valued at $10.80, and C. W. Keeland, merchandise valued at $10.80.

26. Each partner withdraws $20.00.

30. Gave Wallace & Davis a check for $16.85 to pay a bill owed them by C. W. Keeland (§130, ¶ 1b).

31. Each partner is credited with his salary for the month (§ 130, ¶ 4). The Profit and Loss statement shows a net profit of $1,478.63; each partner is credited with one-half of this amount (§ 129, ¶ 8).

Rule the Capital accounts and bring down the Present Capital as in Illustration No. 50.

Exercise No. 56, Capital and Personal Accounts with Two Partners.

Apr. 1. H. D. Frick and C. L. Thomas form a copartnership for the purpose of engaging in the retail drug business. Each partner is to invest an equal amount, share equally the profits or losses, and receive a salary of $100.00 per month.

H. D. Frick invests cash, $2,000.00; C. L. Thomas invests cash, $2,000.00 (§ 129, ¶ 5).

9. Frick withdraws $25.00 (§ 130, ¶ 1).

11. Thomas withdraws $15.00.

16. Frick takes merchandise out of stock valued at $24.85 (§ 130, ¶ 2).

20. Thomas takes merchandise out of stock valued at $10.50.

25. Thomas invests $1,000.00 and Frick $900.00 (§ 129, ¶ 6).

27. Thomas withdraws $25.00.

28. Frick withdraws $10.00.

30. Each partner is credited with his salary for the month.

May 9. Each partner withdraws $300.00 from his investment (§ 129, ¶ 2).

12. Frick takes merchandise out of stock valued at $16.50.

19. Gave Jones Bros. a check for $36.50 to pay an account owed by Thomas (§ 130, ¶ 1b).

20. Thomas withdraws $15.00; Frick takes merchandise out of stock valued at $12.80.

25. Thomas takes merchandise out of stock valued at $18.65.

27. Thomas and Frick each withdraw $30.00.

31. Each partner is credited with his salary for the month.

The Profit and Loss statement shows a net profit of $826.92; each Partner's Capital account is credited with one-half of this (§ 129, ¶ 8).

Foot and rule the Capital account and bring down the Present Capital as in Illustration No. 50.

Exercise No. 57, Capital and Personal Accounts with Three Partners.

July 1. E. E. Admire, F. P. Schreiner and A. B. Johnston form a copartnership for the purpose of engaging in the retail hardware business. Each partner is to invest an equal amount and the profits or losses are to be shared equally. Each is to receive a salary of $100.00 per month.

E. E. Admire invests cash, $2,000.00; merchandise, $1,865.40; personal accounts, $269.50; notes receivable, $398.40 (§ 129, ¶ 5).

F. P. Schreiner invests cash, $2,500.00; real estate, $1,000.00; notes receivable, $850.70; accounts receivable, $562.50; the firm assumes a note for $350.00, which he owes at the First National Bank (§ 129, ¶¶ 1 and 5).

A. B. Johnston invests cash, $3,000.00; notes receivable, $1,000.00; accounts receivable, $500.00 (§ 129, ¶ 5).

9. Admire withdraws $10.00; Johnston takes merchandise out of stock valued at $16.50.

14. Schreiner withdraws $25.00.

20. Admire takes merchandise out of stock valued at $19.50; Schreiner withdraws $25.00.

25. Johnston withdraws $30.00.

26. Admire takes merchandise out of stock valued at $27.50.

28. Schreiner withdraws $15.00.

29. Johnston takes merchandise out of stock valued at $19.60.

(*Concluded on page 104.*)

(*Exercise No. 57—Continued from page 103.*)

July 31. Each partner is credited with his salary for the month.
Aug. 9. Each partner withdraws $300.00 from the amount invested (§ 129, ¶ 2).
11. Admire and Johnston each withdraw $25.00.
14. Schreiner withdraws $50.00.
20. Admire takes merchandise out of stock valued at $16.75.
22. Gave Mace & Brown a check for $18.40 to pay an account owed by Johnston.
23. Each partner invests an additional $1,000.00.
27. Gave S. D. Anderson $25.00 to apply on account owed him by Admire.
28. Each partner withdraws $25.00.
31. Each partner is credited with his salary for the month.
The Profit and Loss statement shows a net profit of $1,527.48; each Partner's Capital account is credited with $400.00 of this and their Personal accounts with the balance (§ 129, ¶ 8, and § 130, ¶ 6).

Foot and rule the Capital account and bring down the Present Capital as in Illustration No. 50.

ACCOUNTS WITH FIXED ASSETS.

§ 131. As Explained in § 111, it is necessary to purchase certain property for use in the business. The nature of the property determines the name of the account. Since the property purchased for use in the office, storeroom, and for delivery purposes, is distinct and separate, it is considered the better practice to keep accounts with each class as follows: Office Equipment, Store Fixtures, and Delivery Equipment.

¶ 1. *Depreciation.* Depreciation refers to the decrease in value of property purchased for use in the business. It is necessary to show this depreciation on the Statement of the Business at the close of the fiscal period, otherwise the Balance Sheet will not show the true assets, nor the Profit and Loss statement, the operating cost for the period. There are two methods of showing this depreciation. In one method, the asset account representing the value of the property is credited with the estimated value at the close of the fiscal period, and the balance (difference between the estimated value and the cost) is charged to the proper operating cost. In the other method, the asset account representing the value of the property is not affected by the charge to operating cost for the amount of the depreciation, but is allowed to show the cost value. The proper operating account is charged with the amount of depreciation, and a reserve for depreciation account credited. This reserve for depreciation account is a valuation account (§ 23) and qualifies the asset account to which it refers; the balance of the asset account shows the original cost of the property, and the balance of the reserve for depreciation account, the estimated decrease in value. The difference between these two accounts shows the estimated present value of the asset. The latter plan is the better practice because the asset account shows the cost value, hence permits a more satisfactory settlement with the insurance adjuster in case of a fire.

The amount of the decrease will depend largely on the nature of the property. A typewriter which is in constant use will decrease more rapidly than a desk or safe. The depreciation each year is calculated on the original cost price and not on the present value. An adding machine which cost $400.00 January 1, 1917, will not be worth $400.00 at the end of the year. If it is estimated that the machine will be of useful service for ten years, it would be worth $360.00 at the end of the first year, $320.00 at the end of the second year, $280.00 at the end of the third year, etc.

The purpose of the discussion at this time is to show the necessity for taking into consideration the depreciation on property purchased for use in the business.

The amount of the depreciation is fixed by the management or by an appraisal company, subject to the approval of the U. S. Treasury Department in connection with the income tax. This subject is ably discussed by a number of leading authorities on accounting, including Gilman, Montgomery, Dickinson and Walton.

OFFICE EQUIPMENT ACCOUNT.

§ 132. **The Object of this Account** is to show the cost of the property purchased for use in the office, which includes all office furniture, such as desks, typewriters, safes, files, bookcases, chairs, tables, etc.

Debit Office Equipment Account:

¶ 1. For the cost value of office furniture on hand at the beginning of the business.

¶ 2. For the cost value of office furniture purchased during the fiscal period, which includes freight or other transportation cost as well as the invoice cost.

Credit Office Equipment Account:

¶ 3. For the cost value of office equipment sold or exchanged. (If the selling or exchange price is less than the cost, the difference is charged to the Reserve for Depreciation account.)

¶ 4. For the cost value of office equipment destroyed or discarded. (The Reserve for Depreciation account is debited with this amount except as explained in the note under §133, ¶6.)

¶ 5. *The Balance of this Account* shows the cost value of the office equipment on hand. It is shown as a fixed asset on the Balance Sheet.

¶ 6. *To Close the Office Equipment Account.* This account is not closed until it balances, unless it is necessary to transfer the balance to a new page. When closed for this purpose, the balance, together with the date of closing and the new page, are entered with red ink on the credit side, the account ruled with single and double red lines and footed with black ink. The balance is entered with black ink on the debit side of the account on the new page.

Office Equipment

19					
Apr	4	Desk	C3	35	
		Chair		5	
		Bkprs Desk		22	
		Stool		3	50
		6 chairs @ 2.00		12	
		Bookcase		23	50
	6	Safe	J1	200	
	7	Partition	C3	165	50
				466	50

Illustration No. 52, Office Equipment Account for Exercise No. 58.

RESERVE FOR DEPRECIATION OF OFFICE EQUIPMENT ACCOUNT.

§ 133. **The Object of this Account** is to show the net amount of the reserve created to take care of the decrease in the value of the property purchased for use in the office. It is a valuation account (§ 23) and deducted from the cost of office equipment to show the present value.

Debit Reserve for Depreciation Account:

¶ 1. With the cost value of office equipment discarded.

¶ 2. With the difference between the cost, and selling or exchange price of office equipment sold or exchanged.

¶ 3.* With the amount of depreciation on office equipment which has been stolen or unexpectedly destroyed. (See note under ¶ 6.)

Credit Reserve for Depreciation Account:

¶ 4. At the close of each fiscal period with the amount of depreciation as designated by the management when the property was purchased. (The General Administrative Expense account is charged with this depreciation.)

NOTE. The amount set aside should be sufficient to take care of the actual decrease in value on account of use, hence the account should always show a credit balance.

¶ 5. *The Balance of this Account* shows the net amount reserved for depreciation of office equipment. It is shown on the Balance Sheet as a deduction from the cost of office equipment.

¶ 6. *To Close the Reserve for Depreciation of Office Equipment Account.* This account is not closed until it balances, unless it is necessary to transfer the balance to a new page. When closed for this purpose, the balance, together with the date of closing and the new page, are entered on the smaller side with red ink, the account ruled with single and double red lines and footed with black ink. The balance is entered with black ink under this account on the new page.

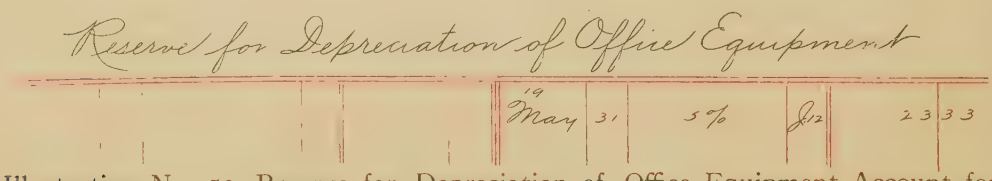


Illustration No. 53, Reserve for Depreciation of Office Equipment Account for Exercise No. 58.

*NOTE. If property charged to a fixed asset account is destroyed, stolen, or dies, the *present value* is debited to a special loss account, and the asset account which shows the cost value of such property is credited for the *original cost price*. There will be a discrepency between the amount in the debit entry and that in the credit entry, if one or more fiscal periods have elapsed since the property was purchased. When this is the case, the *amount of the discrepancy* is debited to the Reserve for Depreciation account. The depreciation account is debited because the amount of the depreciation on this property is included in the credit entry and since the entire value of this property is removed from the books, it is also necessary to remove the amount of the depreciation. To illustrate: January 1, 1916, a typewriter is purchased for $100.00 and charged to the Office Equipment account. At the end of the year, December 31, 1916, a depreciation of 10% is allowed for use of office equipment. December 31, 1917, another depreciation of 10% is allowed. In January, 1918, the typewriter is stolen and not recovered. The bookkeeper makes a journal entry debiting Loss on Stolen Typewriter for $80.00, present value of the typewriter ($100.00–$10.00–$10.00), and Reserve for Depreciation of Office Equipment for $20.00, the amount charged off as depreciation, and crediting Office Equipment for $100.00, the cost of the typewriter.

STORE FIXTURES ACCOUNT.

§ 134. **The Object of this Account** is to show the cost of property used in the storeroom, which includes shelving, show cases, scales, trucks, etc. The nature of this account is the same as the Office Equipment, and the various debits and credits are similar.

Debit Store Fixtures Account:

¶ 1. With the value of store fixtures on hand at the beginning of the business.

¶ 2. With the cost of store fixtures purchased during the fiscal period, which includes freight or other transportation cost as well as the invoice cost.

Credit Store Fixtures Account:

¶ 3. For the cost value of store fixtures sold or exchanged. (If the selling or exchange price is less than the cost, the difference is charged to the Reserve for Depreciation account.)

¶ 4. For the cost value of store fixtures destroyed or discarded. (The Reserve for Depreciation account is debited with this amount except as explained in the note under § 133, ¶ 6.)

¶ 5. *The Balance of this Account* shows the cost value of the store fixtures on hand. It is shown as a fixed asset on the Balance Sheet.

¶ 6. *To Close the Store Fixtures Account.* This account is not closed except as explained in § 132, ¶ 6, and is closed in the same manner.

RESERVE FOR DEPRECIATION OF STORE FIXTURES ACCOUNT.

§ 135. **The Object of this Account** is to show the net amount of the reserve created to take care of the decrease in value of the property purchased for use in the storeroom. It is a valuation account and deducted from the cost of store fixtures to show the present value.

Debit Reserve for Depreciation Account:

¶ 1. With the cost value of store fixtures discarded.

¶ 2. With the difference between the cost, and selling or exchange price of store fixtures sold or exchanged.

¶ 3. With the amount of depreciation on store fixtures which have been stolen or unexpectedly destroyed. (See note under § 133, ¶ 6.)

Credit Reserve for Depreciation Account:

¶ 4. At the close of each fiscal period with the amount of depreciation as designated by the management when the property was purchased. (The General Administrative Expense account is charged for this depreciation because the amount of the expense has been increased by using the property.)

See note under § 133, ¶ 4.

¶ 5. *The Balance of this Account* shows the net amount reserved for depreciation of store fixtures. It is shown on the Balance Sheet as a deduction from the cost of store fixtures.

¶ 6. *To Close the Reserve for Depreciation of Store Fixtures Account.* This account is not closed except as explained in § 133, ¶ 6, and is closed in the same manner.

DELIVERY EQUIPMENT ACCOUNT.

§ 136. **The Object of this Account** is to show the cost of all property purchased for use in delivering goods, which includes teams, wagons, harness, automobiles, or any other conveyances that may be used by the business in delivering goods to customers. The nature of the account is the same as the Office Equipment, and the various debits and credits are the same.

Debit Delivery Equipment Account:

¶ 1. With the value of delivery equipment on hand at the beginning of the business.

¶ 2. With the cost value of delivery equipment purchased during the fiscal period, which includes freight and other transportation cost as well as the invoice cost.

Credit Delivery Equipment Account:

¶ 3. For the cost value of delivery equipment sold or exchanged. (If this price is less than the cost, the difference is charged to the Reserve for Depreciation account.)

¶ 4. For the cost value of delivery equipment destroyed or discarded. (The Reserve for Depreciation account is debited with this amount except as explained in the note under § 133, ¶ 6.)

¶ 5. *The Balance of this Account* shows the cost value of the delivery equipment on hand. It is shown as a fixed asset on the Balance Sheet.

¶ 6. *To Close the Delivery Equipment Account.* This account is not closed except as explained in § 132, ¶ 6, and is closed in the same manner.

RESERVE FOR DEPRECIATION OF DELIVERY EQUIPMENT ACCOUNT.

§ 137. **The Object of this Account** is to show the net amount of the reserve created to take care of the decrease in value of the property purchased for delivery purposes. It is a valuation account and deducted from the cost of delivery equipment to show the present value.

Debit Reserve for Depreciation Account:

¶ 1. With the cost value of delivery equipment discarded.

¶ 2. With the difference between the cost, and selling or exchange price of delivery equipment sold or exchanged.

¶ 3. With the amount of depreciation on delivery equipment which has been stolen or unexpectedly destroyed. (See note under § 133, ¶ 6.)

Credit Reserve for Depreciation Account:

¶ 4. At the close of each fiscal period with the amount of depreciation as designated by the management when the property was purchased or at the end of the first fiscal period. (The Selling Expense account is charged for this depreciation, because the amount of this expense has been increased by using the property.)

See note under § 133, ¶ 4.

¶ 5. *The Balance of this Account* shows the net amount reserved for depreciation of delivery equipment. It is shown on the Balance Sheet as a deduction from the cost of delivery equipment.

¶ 6. *To Close the Reserve for Depreciation of Delivery Equipment Account.* This account is not closed except as explained in § 133, ¶ 6, and is closed in the same manner.

Exercises in Fixed Asset Accounts. Prepare on ledger paper an account for each fixed asset and reserve for depreciation account in each of these three exercises. The transactions relating to office equipment in Exercise No. 58 are the same as Illustrations Nos. 52 and 53. References are to §§ 132–137. Write the name of the property purchased in the explanation column of each account.

Exercise No. 58, Fixed Asset Accounts.

Apr. 4. Bought one roller top desk, $35.00; one chair, $5.00; one bookkeeper's desk, $22.00; one stool, $3.50; six chairs, $12.00; one sectional book case, $23.50 (§ 132, ¶ 2).

Bought one horse named Charlie, $100.00; one horse named Bob, $90.00; one horse named Joe, $75.00; one horse named Sam, $85.00; one Studebaker wagon, $45.00; one American wagon, $40.00; harness, $15.00 (§ 136, ¶ 2).

Bought coal scales, $150.00 (§ 134, ¶ 2).

6. Bought one Mosier safe, $200.00 (§ 132, ¶ 2).

7. Paid $165.50 for new partition in office (§ 132, ¶ 2).

16. Bought one Fairbanks scales, $54.00 (§ 134, ¶ 2).

May 31. As this is the end of the fiscal period, the Reserve for Depreciation of Office Equipment account is credited with 5% of the debit side of the Office Equipment account; the Reserve for Depreciation of Store Fixtures account, credited with 5% of the debit side of the Store Fixtures account, and the Reserve for Depreciation of Delivery Equipment account, credited with 10% of the debit side of the Delivery Equipment account. (§§ 133, 135 and 137, ¶ 4 in each.) The accounts are footed with small pencil figures, but not ruled. See Illustrations Nos. 52 and 53.

Exercise No. 59, Fixed Asset Accounts.

Jan. 1. Office Equipment, on hand, as follows: safe, $150.00; desk, $30.00; chair, $5.00; typewriter, $100.00 (§ 132, ¶ 1). Store Fixtures on hand, as follows: show case, $40.00; shelving in the storeroom, $75.00; scales in the storeroom, $60.00 (§ 134, ¶ 1). Delivery Equipment on hand, as follows: one "Old Hickory" wagon, $50.00; one horse named Charlie, $100.00; one mule named Maud, $100.00; harness, $25.00 (§ 136, ¶ 1). Reserve for Depreciation of Office Equipment, Cr., $57.00. Reserve for Depreciation of Store Fixtures, Cr., $35.00. Reserve for Depreciation of Delivery Equipment, Cr., $55.00.

Feb. 2. Purchased one Packard Auto Truck, $1,500.00 (§ 136, ¶ 2).

22. Purchased two trucks for shipping room, $20.00 (§ 134, ¶ 2).

Mar. 25. Purchased a typewriter desk for $25.00 (§ 132, ¶ 2).

June 2. Paid $25.50 for shelving in the storeroom (§ 134, ¶ 2).

30. At the end of the fiscal period the Reserve for Depreciation of each account is credited with 5% of the cost price.

Exercise No. 60, Fixed Asset Accounts.

July 1. On hand: Safe, $140.00; typewriter, $60.00; roller top desk, $40.00; bookcase, $30.00; files, $30.00. Reserve for Depreciation of Office Equipment, Cr., $60.00. Scales, $60.00; trucks, $20.00; four counters, $75.00; shelving, $45.00. Reserve for Depreciation of Store Fixtures, Cr., $40.00. One horse named George, $125.00; one horse named Darby, $125.00; one People's wagon, $70.00; harness, $50.00. Reserve for Depreciation of Delivery Equipment, Cr., $74.00.

(*Concluded on page 110.*)

(*Exercise No. 60—Continued from page 109.*)

July 10. Paid $35.00 for bookkeeper's desk and $5.00 for stool.
15. Bought a show case for $30.00.
18. Sold two counters for $15.00 each (cost price, $18.75 each); (credit, § 134, ¶ 3; debit, § 135, ¶ 2).
20. Gave the typewriter on hand July 1 and $50.00 cash for a new one valued at $100.00.

Make a journal entry similar to the illustration below and show the amount of each debit and credit; post the amounts affecting the Office Equipment and Reserve accounts.

Office Equipment	xxx xx		
Reserve for Depreciation of Office Equipment	xx xx		
Office Equipment			xx xx
Cash			xx xx

Aug. 21. Bought a desk for shipping clerk, $35.00.
25. Gave the horse George, on hand July 1, and our check for $50.00 for a horse named Bill, valued at $150.00.

Make a journal entry similar to the illustration below and show the amount of each debit and credit; post the amounts affecting the Delivery Equipment and Reserve accounts.

Delivery Equipment	xxx xx		
Reserve for Depreciation of Delivery Equipment	xx xx		
Delivery Equipment			xxx xx
Cash			xx xx

Sept. 9. Gave safe on hand July 1, and our check for $100.00 for a new safe valued at $200.00. Make a journal entry similar to the illustration and show the amount of each debit and credit; post the amounts affecting the Office Equipment and Reserve accounts.

Office Equipment	xxx xx		
Reserve for Depreciation of Office Equipment	xx xx		
Office Equipment			xxx xx
Cash			xxx xx

16. The horse Darby was killed in a runaway. His present value, based on the depreciation, is $112.50.

Read note at bottom of page 106, and make a journal entry showing the amounts of each debit and credit in the illustration; post the amounts affecting the Delivery Equipment and Reserve accounts.

Loss on Dead Horse	xxx xx		
Reserve for Depreciation of Delivery Equipment	xx xx		
Delivery Equipment			xxx xx

16. Paid $100.00 for horse named Dolly (debit, § 136, ¶ 2).
27. Bought a typewriter desk for $15.00.
30. At the end of the fiscal period the Reserve for Depreciation of each account is credited with 5% of the cost price.

ACCOUNTS WITH MERCHANDISE.

§ **138. As explained** in § 39, one Merchandise account may show the result of all the transactions with the purchases and sales of merchandise. The following are the principal objections to the one account: (a) it causes returned sales to appear as purchases, and returned purchases to appear as sales; (b) it causes the cost price to appear on one side, and the selling price on the other side of the same account, which is contrary to the accounting principle that equal values should appear on both sides of the same account; (c) it causes one account to be both a

nominal and a real account, which is contrary to the accounting principle that each account is either a nominal or a real account; (d) it requires an analysis of the account in order to show all the facts necessary on the Profit and Loss statement. The first two of these objections are overcome by keeping separate accounts with Purchases, Inventory and Sales as explained in §§ 40, 41 and 42. The other objections may be overcome by separate accounts with Purchases, Freight In, Inventory, Purchases Discount, Sales, Sales Rebates and Allowances, and Sales Discount. When these accounts are kept, the Profit and Loss statement may be prepared from the Trial Balance and Inventory of merchandise on hand at the close of the fiscal period, without an analysis of the trading accounts in the ledger.

PURCHASES ACCOUNT.

§ 139. **The Object of this Account** is to show the invoice cost of merchandise purchased and any subsequent charges that increase this cost, if special accounts are not kept with these charges.

Debit Purchases Account:

¶ 1. For the cost of merchandise purchased for sale. This is represented by each purchase, or the totals of the purchases book and the purchases column in the cash book.

Credit Purchases Account:

¶ .2 For the cost of merchandise returned to the seller for credit.

¶ 3. For rebates or allowances made by the seller to us for damaged goods, shortages, or overcharges, if the full amount was charged. (These credits are usually represented by credit bills [§ 162] sent to us.)

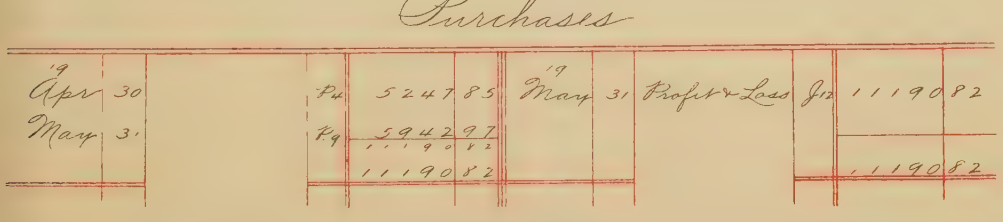


Illustration No. 54, Purchases Account for Exercise No. 61.

¶ 4. *The Difference Between the Two Sides of this Account* shows the net cost (invoice cost) of the goods purchased since the beginning of the present fiscal period. It is not an asset if part of the goods have been sold, as is usually the case. It is necessary to take stock to ascertain the present value of the goods on hand. The Purchases account and the present inventory are both shown with the trading accounts on the Profit and Loss statement.

NOTE. If desired, the value of the inventory may be closed into the Purchases account after the ledger is closed at the end of the fiscal period, in which case an additional debit precedes ¶ 1, as explained in § 40, ¶ 1, in the Introductory Set. This plan is based on the assumption that the current fiscal period purchases from the previous fiscal period the merchandise on hand (inventory).

¶ 5. *To Close the Purchases Account.* When the journal entry to close the trading accounts has been made and posted this account will balance, and it is ruled with single and double red lines and footed with black ink. If there is a single amount on each side, use double red lines only.

FREIGHT IN ACCOUNT.

§ 140. The Object of this Account is to show the amount paid for freight on merchandise purchased. Freight paid on merchandise purchased for sale is a part of its cost, and must be considered as such in ascertaining the selling price. Amounts paid for freight on merchandise purchased may be charged directly to the Purchases account or to a special Freight In account. As mistakes may occur in rendering freight bills, it is the better practice to keep a separate account so that rebates for freight may be credited to this account, and the net amount paid for freight be shown by the balance. Freight paid on goods purchased is entirely different from that paid on goods delivered to customers (freight out) and these amounts should be represented by separate accounts. One represents a part of the cost of merchandise purchased and the other a part of the selling expense.

Debit the Freight In Account:

¶ 1. For (a) amounts paid for freight, express, postage, or drayage on merchandise purchased, and (b) freight prepaid on our purchases and charged on the invoice.

Credit the Freight In Account:

¶ 2. For rebates allowed for overcharges on freight if the amount was charged to this account.

¶ 3. For any amount that reduces the cost of freight.

¶ 4. *The Difference Between the Two Sides of this Account* shows the net amount paid for freight on merchandise purchased. It is shown with the trading accounts on the Profit and Loss statement as a part of the cost of merchandise purchased.

¶ 5. *To Close the Freight In Account.* When the journal entry to close the trading accounts has been made and posted, this account will balance and it is ruled with single and double red lines and footed with black ink.

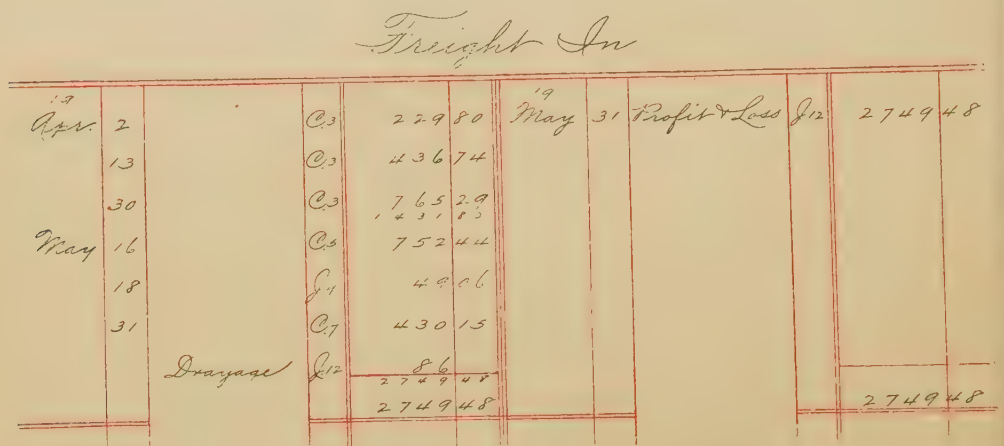


Illustration No. 55, Freight In Account for Exercise No. 61.

NOTE. If desired, the balance may be closed into the Purchases account by a separate journal entry. This plan is followed when the Purchases account is to show the invoice and freight cost of merchandise for the fiscal period.

SALES ACCOUNT

§ **141. The Object of this Account** is to show the amount received from the sale of merchandise. Usually only one account is kept with sales, but if it is desired to know the sales from different departments, a separate account may be kept with each of them.

Debit the Sales Account:

¶ 1. For the selling price of all merchandise returned by customers for credit, for credits allowed for errors in billing, and for shortages.

Credit the Sales Account:

¶ 2. For (a) each cash or credit sale, or (b) at the end of the month for the total cash sales, as shown by the "Sales" column in the cash book, and the credit sales as shown by the total of the sales book.

¶ 3. For returns from special sales.

¶ 4. For amount of errors in shipping when a customer receives more merchandise than was charged to him.

¶ 5. *The Difference Between the Two Sides of this Account* shows the net sales since the beginning of the current fiscal period. It is shown with the trading accounts on the Profit and Loss statement as the returns from sales.

¶ 6. *To Close the Sales Account.* When the journal entry to close the trading accounts has been made and posted, this account will balance and is ruled with single and double red lines and footed with black ink.

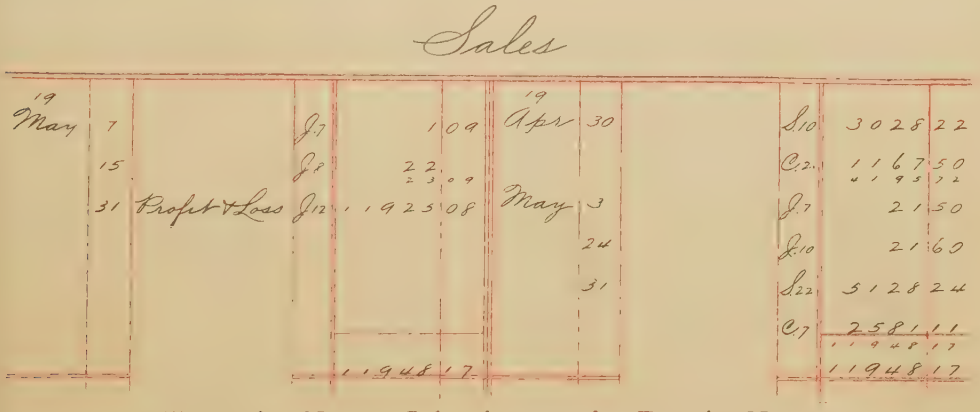


Illustration No. 56, Sales Account for Exercise No. 61.

SALES REBATES AND ALLOWANCES ACCOUNT.

§ **142. The Object of this Account** is to show the amount of the deductions made by customers on account of merchandise being damaged or not equal to sample, or other allowances. This account is not necessary unless the management wishes to have the rebates and allowances shown separately; an account of much size indicates that customers are not receiving satisfactory service.

Debit Sales Reb. and Allow. Acct.

¶ 1. For the amount of deductions allowed that do not affect the Sales or Sales Discount account.

Credit Sales Reb. and Allow. Acct.

¶ 2. For any error in allowing rebates which is not discovered until after the rebate is allowed.

¶ 3. *The Difference Between the Two Sides of this Account* will show the total amount of rebates and allowances allowed customers. It is shown with the trading accounts on the Profit and Loss statement, as a deduction from the returns from sales.

¶ 4. *To Close the Sales Rebates and Allowances Account.* When the journal entry to close the trading accounts has been made and posted, this account will balance and is ruled with single and double red lines and footed with black ink.

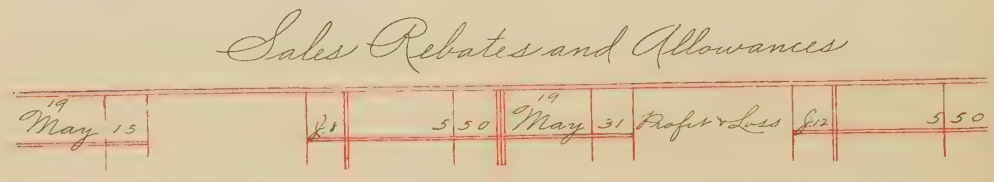


Illustration No. 57, Sales Rebates and Allowances Account for Exercise No. 61.

INVENTORY ACCOUNT.

§ 143. **The Object of this Account** is to show the value of merchandise on hand at the close of the fiscal period. It may be regarded as a summary account and closed into the Purchases account after the ledger is closed, or remain open until the close of the fiscal period. The latter is considered the better practice because it permits errors in taking stock to show on the Inventory account.

Debit the Inventory Account:

¶ 1. For the value of salable merchandise on hand at the beginning of the business.

¶ 2. For the value of salable merchandise on hand at the end of the current fiscal period.

Credit the Inventory Account:

¶ 3. At the close of each fiscal period with the cost of salable merchandise on hand at the beginning of the period. (This is the same credit as the debit described in ¶ 1.)

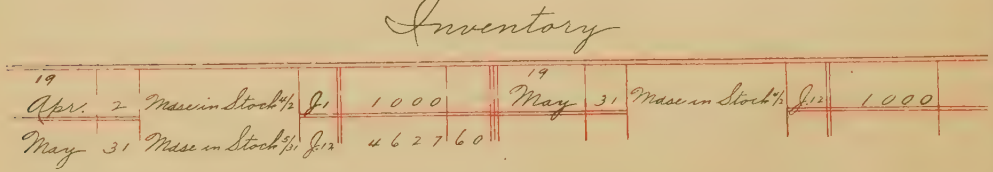


Illustration No. 58, Inventory Account for Exercise No. 61.

¶ 4. *The Difference Between the Two Sides of this Account* shows the value of merchandise on hand at the close of the fiscal period, and corresponds to the amount of merchandise on hand as shown by the last inventory. It is shown with the trading accounts on the Profit and Loss statement, being added to the net cost of merchandise purchased, also as a current asset on the Balance Sheet.

¶ 5. *To Close the Inventory Account.* When the journal entry to close the trading accounts has been made and posted, this account will balance, and it is ruled with single and double red lines and footed with black ink. See note under § 139, ¶ 4.

MERCHANDISE DISCOUNT.

§ 144. It is Customary in Business to allow a special discount for prompt payment of long-time purchases or sales. This discount is indicated in the terms on the invoice or bill (§ 166). It is usually termed: "Merchandise Discount," to distinguish it from interest paid in advance, which is sometimes termed "Discount."

Discount deducted for prompt payment may be considered as reducing the cost of merchandise purchased, or the returns from sales of merchandise; or as interest. This question is decided by those interested or by the conditions under which the business is being conducted. In this set, deductions for prompt payment will be considered as reducing the cost of merchandise purchased or the returns from sales.

One account may be kept with discounts deducted by the business for prompt payment of obligations, and those allowed to customers on bills; but it is better practice to keep two separate accounts. When this is done, the discount deducted by the business is termed "Purchases Discount," and that allowed to customers, "Sales Discount."

PURCHASES DISCOUNT ACCOUNT.

§ 145. The Object of this Account is to show the total deductions made for prompt payment of obligations owed by the business. These deductions are made according to the terms on the invoices. (§ 166.)

Debit the Purchases Discount Account:

¶ 1. For the amount of an error in our favor made by us in deducting discount and afterwards reported.

¶ 2. For the amount of discount deducted by us and not allowed by the person or firm to whom the remittance is sent.

Credit the Purchases Discount Account:

¶ 3. For the difference between the face of the invoice and the amount of our check when the deduction is made, according to terms of the invoice.

¶ 4. For discount on partial payments of invoices subject to discount. (§ 167.)

¶ 5. *The Difference Between the Two Sides of this Account* shows the net amount of discount deducted for prompt payment of obligations. It is shown with the trading accounts on the Profit and Loss statement as a deduction from the cost of merchandise purchased. See note below.

NOTE. Deductions for prompt payment may be considered as interest on the capital invested and not as a reduction of the cost of merchandise purchased, in which case it would appear with "Other Income." This is a question to be decided by those interested in view of the conditions under which the business is being conducted.

¶ 6. *To Close the Purchases Discount Account.* When the journal entry to close the trading accounts has been made and posted, this account will balance and is ruled with single and double red lines and footed with black ink.

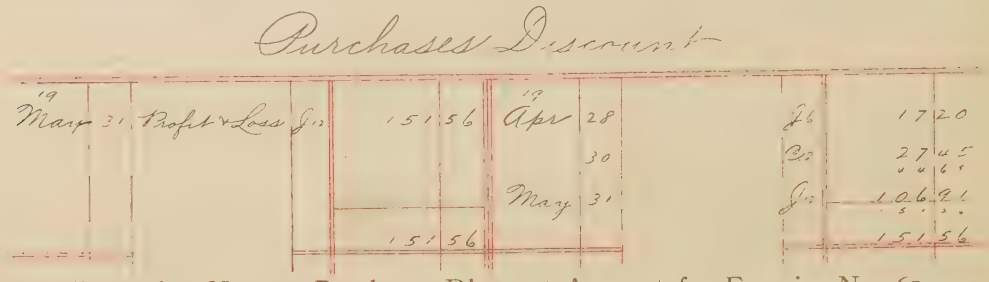


Illustration No. 59, Purchases Discount Account for Exercise No. 61.

SALES DISCOUNT ACCOUNT.

§ 146. The Object of this Account is to show the total deductions made by customers for prompt payment of bills purchased. These deductions are allowed according to the terms of the bills.

Debit Sales Discount Account:

¶ 1. With the difference between the amount of the remittance received from a customer and the face of the bill, when this remittance is accepted for full payment of the bill as indicated by the terms.

¶ 2. For discount allowed on partial payments of bills subject to discount. (§ 167.)

Credit Sales Discount Account:

¶ 3. For an error made by a customer in his favor in deducting the discount, when the error is not discovered until after the credit has been allowed.

¶ 4. *The Difference Between the Two Sides of this Account* shows the net amount of discount allowed customers for prompt payment of goods purchased. It is shown with the trading accounts on the Profit and Loss statement as a deduction from the returns from sales. See note below.

¶ 5. *To Close the Sales Discount Account.* When the journal entry to close the trading accounts has been made and posted, this account will balance and is ruled with single and double red lines and footed with black ink.

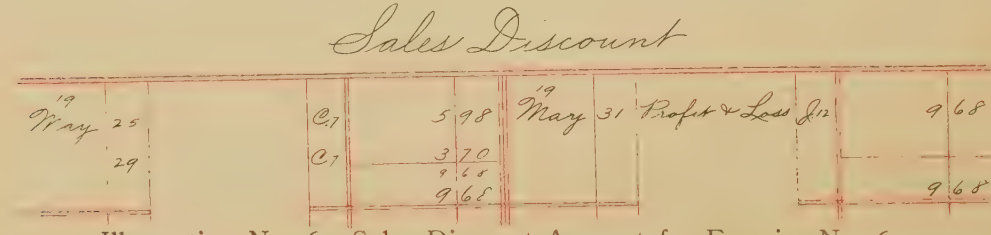


Illustration No. 60, Sales Discount Account for Exercise No. 61.

NOTE. Deductions made by customers may be considered as an interest charge against the capital invested and not a reduction in the returns from sales, in which case it would appear as a "Deduction from Income." This is a question that must be decided by those interested in view of the conditions under which the business is being conducted.

Exercises in Merchandise Accounts. Prepare on ledger paper a Purchases, Sales, Inventory, Freight In, Sales Discount, Purchases Discount and Sales Rebates and Allowances account for each of these three exercises. Exercise No. 61 is the same as Illustrations Nos. 54–60. References are to §§ 139–146.

Exercise No. 61, Accounts with Merchandise.

Apr. 2. Inventory of merchandise on hand, $1,000.00 (§ 143, ¶ 1).
Paid freight on merchandise purchased, $229.80 (§ 140, ¶ 1).
13. Paid freight on merchandise purchased, $436.74 (§ 140, ¶ 1).
28. Paid Western Hay & Grain Co. amount due less $17.20, discount as per terms of the invoice (§ 145, ¶ 3).
30. Paid freight on merchandise purchased, $765.29 (§ 140, ¶ 1).
Total credit sales for the month, per sales book, $3,028.22 (§ 141, ¶ 2b).
Total credit purchases for the month, per purchases book, $5,247.85 (§ 139, ¶ 1).
Total purchases discount, per purchases discount column in the cash book, $27.45 (§ 145, ¶ 3).
Total cash sales for the month, per sales column in the cash book, $1,167.50 (§ 141, ¶ 2b).
May 3. Charged A. D. Munson's Personal account with $9.45, and C. W. Keeland's with $12.05, for merchandise taken out of stock for private use (§ 141, ¶ 3).
7. Allowed W. H. Ingram credit for $1.09, overcharge in price on merchandise purchased by him (§ 141, ¶ 1).
15. Allowed J. A. Bird credit for $27.50, $22.00 for 20 sacks of shorts at $1.10 returned for credit (§ 141, ¶ 1), and $5.50 for damaged goods (§ 142, ¶ 1).
16. Paid freight on merchandise purchased, $752.44.
18. Allowed W. H. Ingram credit for $19.07 and Short Bros. $29.99, total, $49.06, to equalize freight charges (§ 140, ¶ 1).
24. Charged A. D. Munson's Personal account with $10.80, and C. W. Keeland's with $10.80, total $21.60, merchandise taken out of stock for private use (§ 141, ¶ 3).
25. Allowed Short Bros. credit for $5.98 sales discount, being 1% of the sale made them on account (§ 146, ¶ 1).
26. Allowed W. H. Ingram credit for $3.70 sales discount, being 1% of the sale made him on account (§ 146, ¶ 1).
31. Paid freight on merchandise purchased, $430.15 (§ 140, ¶ 1).
Credited Selling Expense with $86.00, the proportionate part of the drayage on merchandise purchased (§ 140, ¶ 1a).
Total credit sales for the month, per sales book, $5,128.24.
Total credit purchases for the month, per purchases book, $5,942.97 (§ 139, ¶ 1).
Total purchases discount, per purchases discount column in the cash book, $106.91 (§ 145, ¶ 3).
Total cash sales for the month, per sales column in the cash book, $2,581.11 (§ 141, ¶ 2b).
Merchandise on hand, $4,627.60.

When all transactions have been entered, close the balance of each account into the Profit and Loss account, rule, and foot with black ink as in Illustrations Nos. 54–60. The inventory of merchandise on hand May 31 is entered on the debit side of the Inventory account below the ruling. The entry for the balance transferred to the Profit and Loss account is written with black ink in the illustration because each amount is posted from the journal. It is not necessary to construct the Profit and Loss account resulting from closing the trading accounts as the purpose of this exercise is to give practice in applying the debits and credits that are applicable to the trading accounts.

Exercise No. 62, Accounts with Merchandise.

July 2. Inventory of merchandise on hand, $5,627.85 (§ 143, ¶ 1).
3. Bought on account, $396.35 (§ 139, ¶ 1).
5. Sold on account, $162.95 (§ 141, ¶ 2).
6. Sold for cash, $236.95 (§ 141, ¶ 2).
7. Bought for cash, $397.62 (§ 139, ¶ 1).
Paid freight on merchandise purchased, $45.60 (§ 140, ¶ 1).
10. Returned a part of merchandise purchased and received credit for $56.29.
12. Allowed a customer a credit of $10.65 for merchandise returned.
13. Deducted $13.50 from an invoice due a creditor for prompt payment.
Sold on account, $427.65.
14. Sold for cash, $469.52.
16. Bought on account, $927.65.
Paid freight on merchandise purchased, $29.85.
17. Allowed a customer credit for $18.65 for overcharge on a sale (§ 141, ¶ 1).
18. Bought on account, $216.75.
19. Paid freight on merchandise purchased, $16.50.
21. Bought for cash, $219.27.
23. Sold on account, $565.92.
Bought for cash, $156.97.
28. Returned merchandise to a creditor and received credit for $41.27.
30. Sold for cash, $327.65.
Aug. 9. Purchased on account, $219.65.
Sold on account, $327.65.
15. Sold for cash, $156.90.
16. Paid freight on goods purchased, $72.65.
17. Bought on account, $250.12.
18. Received credit for $150.70, value of merchandise returned to a creditor because it was damaged (§ 139, ¶ 3).
Allowed a customer a credit of $25.60 for goods returned (§ 141, ¶ 1).
20. Deducted $12.50 from an invoice paid to a creditor for prompt payment.
22. Sold on account, $216.25.
23. Purchased on account, $429.80.
Allowed a customer a discount of $16.80 for prompt payment of a bill.
24. Sold on account, $209.12.
Allowed a customer a credit of $16.37 for an overcharge (§ 141, ¶ 1).
25. Purchased on account, $312.62.
Sold for cash, $426.90.
27. Allowed a customer a discount of $5.90 for prompt payment of a bill.
Received credit for $19.55, value of merchandise returned to a creditor because it was damaged.
29. Allowed a customer a credit of $14.20 for goods returned by him.
Deducted $14.29 discount on an invoice paid a creditor.
30. Allowed a customer credit for $5.60 on account of damaged goods.
31. Merchandise on hand, $5,681.37.

When all transactions have been entered, close the balance of each account into the Profit and Loss account, rule, and foot with black ink as in Illustrations Nos. 54–60. The inventory of merchandise on hand August 31 is entered on the debit side of the Inventory account below the ruling. The entry for the balance transferred to the Profit and Loss account is written with black ink in the illustration because each is posted from the journal. It is not necessary to construct the Profit and Loss account resulting from closing the trading accounts as the purpose of this exercise is to give practice in applying the debits and credits that are applicable to the trading accounts.

Exercise No. 63, Accounts with Merchandise.

Sept. 1. Inventory of merchandise on hand, $16,427.95.
16. Paid freight on merchandise purchased, $462.79.
30. Paid freight on merchandise purchased, $572.45.
Cash sales for the month per sales column in the cash book, $3,624.78.
Credit sales, per sales book, $9,479.21.
Credit purchases, per purchases book, $4,629.87.
Oct. 5. Deducted discount from an invoice purchased, $86.27.
9. Returned a part of merchandise purchased and received credit for $142.87.
12. Allowed a customer a discount of $26.75 for prompt payment of a bill.
13. A customer returned a part of merchandise sold him and we allowed him credit for $36.82.
15. Paid freight bills for merchandise purchased, $862.75.
20. Deducted $72.56 discount from an invoice purchased.
21. A customer reports a part of goods sold him not as good as sample, and we allowed him a credit of $27.84 (§ 142, ¶ 1).
24. Received credit for $109.34, merchandise returned to a creditor.
25. A creditor notified us that we made a mistake of $10.00 in deducting discount and stated that our account had been debited with the amount of the error (§ 145, ¶ 1).
26. Received $9.72 from the railroad company for an error in a freight bill (§ 140, ¶ 2).
27. A customer deducted $18.75 discount for prompt payment of a bill.
28. Allowed a customer credit for $57.82, merchandise returned.
Deducted $61.85 discount from an invoice for prompt payment.
29. A customer made an error of $3.50 in calculating discount and his account was charged with the amount (§ 146, ¶ 3).
31. Paid freight bills on goods, $627.92.
Cash sales, per sales column in the cash book, $4,592.81.
Credit sales, per sales book, $10,627.45.
Cash purchases, per purchases column in the cash book, $3,349.37.
Credit purchases, per purchases book, $9,752.98.
Merchandise on hand, per inventory, $14,693.21.

When all transactions have been entered, close the balance of each account into the Profit and Loss account, rule, and foot with black ink as in Illustrations Nos. 54–60. The inventory of merchandise on hand October 31 is entered on the debit side of the Inventory account below the ruling. The entry for the balance transferred to the Profit and Loss account is written with black in the illustration because each amount is posted from the journal. It is not necessary to construct the Profit and Loss account resulting from closing the trading accounts as the purpose of this exercise is to give practice in applying the debits and credits that are applicable to the trading accounts.

ACCOUNTS WITH EXPENSE.

§ 147. **The Expenses** of conducting a trading business may be divided into two distinct classes, one of which represents the cost of maintaining the office, and the other the cost of selling goods. As explained in § 29, one Expense account may represent all of these expenses, but it is better practice to keep an account with each class. In this set the General Administrative Expense account represents the cost of maintaining the office, and the Selling Expense account, the cost of selling goods. A further classification of these expense accounts may be made if desired; this will be explained in the succeeding sets.

GENERAL ADMINISTRATIVE EXPENSE ACCOUNT.

§ 148. **The Object of this Account** is to show the total expenses incurred in the conduct of the business except those chargeable to Selling Expense, as explained in § 149. The charges to this account include rent, salaries of partners, bookkeepers and office employees, depreciation of office equipment and store fixtures, stationery, books, etc.

Debit General Admr. Expense Acct.:

¶ 1. For partners' salaries.
¶ 2. For rent.
¶ 3. For telephone, telegrams and miscellaneous services.
¶ 4. For repairs on office equipment and store fixtures.
¶ 5. For depreciation on office equipment and store fixtures.
¶ 6. For salaries of all employees except those engaged in the selling department.*
¶ 7. For license or other taxes levied for the privilege of doing business.
¶ 8. For insurance on property purchased for sale and for use in the office and store room.
¶ 9. For cost of property that will be consumed by its use, such as stamps, stationery, etc.†
¶ 10. For amounts paid for collecting notes and drafts, and paid to the bank for issuing exchange, collecting out-of-town checks, etc.

Credit General Admr. Expense Acct.:

¶ 11. For any amounts received which reduce the charges to this account.
¶ 12. For amounts received for the sale of property, the cost of which was charged to this account.

¶ 13. *The Difference Between the Two Sides of this Account* shows the net cost of conducting the business, except amounts paid for selling expense. It is shown as a deduction from the gross profit on sales on the Profit and Loss statement.

¶ 14. *To Close the General Administrative Expense Account.* When the journal entry to close the profit and loss accounts is made and posted, this account will balance and is ruled with single and double red lines and footed with black ink.

*A separate account may be kept with the salaries of those engaged in the purchasing department; if the amount involved is large, this plan should be followed because it is an expense directly applicable to the purchases cost.

†A special account may be kept with Office Supplies, if desired, in which case amounts paid for *stationery, ink, pens, carbon paper,* and other supplies used in the daily office routine are debited to this account. It is credited for amounts received that reduce the cost, and with the cost value of such property on hand at the close of the fiscal period. During the period, the balance of the account shows the cost value of office supplies; after the entry is made for the value of supplies on hand at the close of the fiscal period, the balance shows the cost of office supplies for the fiscal period; it will appear on the Profit and Loss statement as one of the general administrative expense items. In the same way accounts may be kept with Postage, Shipping Room Supplies, Warehouse Supplies, and other property that will be consumed by its use. These and the other accounts mentioned at the bottom of page 121 are not advised unless the amounts involved are large, as efficient accounting requires only necessary accounts.

General Administrative Expense

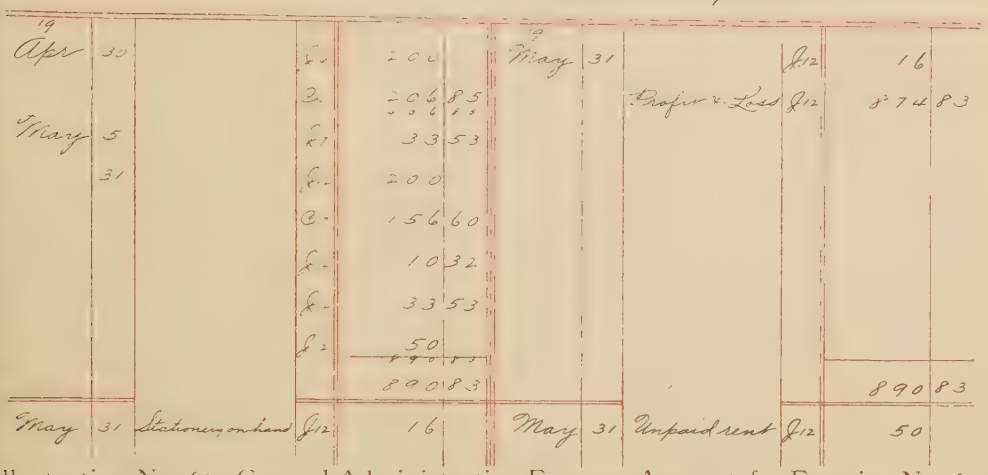


Illustration No. 61, General Administrative Expense Account for Exercise No. 64.

SELLING EXPENSE ACCOUNT.

§ 149. **The Object of this Account** is to show the cost of selling goods. This includes amounts paid to clerks in the selling department, for delivery cost, advertising and other selling expenses.

Debit the Selling Expense Account:

¶ 1. For salaries paid employees for services rendered in selling merchandise.

¶ 2. For the cost of delivering merchandise.*

¶ 3. For amounts paid for advertising and traveling expense.*

¶ 4. For freight paid on merchandise which is to be delivered at the customer's freight station.*

¶ 5. For the depreciation and insurance on delivery equipment, unless a special account is kept with Delivery Expense.

Credit the Selling Expense Account:

¶ 6. (*a*) For amounts received that reduce the cost of selling expense. (*b*) For any part of this account transferred to Freight In or some other account.

¶ 7. For amounts received for services rendered to others by our delivery equipment, unless a special account is kept with Delivery Expense.

¶ 8. *The Difference Between the Two Sides of this Account* shows the net cost of selling goods. The debit side is always the larger. It is shown as a deduction from the gross profit on sales on the Profit and Loss statement.

¶ 9. *To Close the Selling Expense Account.* When the journal entry to close the profit and loss accounts has been made and posted, this account will balance and is ruled with single and double red lines and footed with black ink.

*If desired, the cost of delivery expense may be debited to a Delivery Expense account, advertising to an Advertising account, traveling expense to a Traveling Expense account, prepaid freight on merchandise to be delivered by freight or express, to a Freight Out account. If the cost of advertising includes catalogs, circulars, etc., this may be debited to an Advertising Materials account and treated in the same way as the Office Supplies account explained in the note at the bottom of page 120.

Selling Expense

19						19					
Apr	30		C3	152		May	1		C4	80	
May	5		J7	22	50		31		J12	86	
	31		C7	280					J12	62	50
			J12	45				Profit & Loss	J12	374	34
			J12	103	34						
				602	84					602	84
May	31	Delivery Service	J12	62	50	May	31	Board of horses	J12	103	34

Illustration No. 62, Selling Expense Account for Exercise No. 64.

Exercises in Expense Accounts. Prepare on ledger paper a General Administrative and Selling Expense account for each of these three exercises. Exercise No. 64 is the same as Illustrations Nos. 61 and 62. References are to §§ 148 and 149.

Exercise No. 64, Expense Accounts.

Apr. 30. Partners' salaries, $200.00 (§ 148, ¶ 1).
Total of the General Administrative Expense column on the credit side of the cash book, $206.85 (§ 148, ¶¶ 2, 3, 4, 6, 7).
Total of the Selling Expense column on the credit side of the cash book, $152.00 (§ 149).

May 1. Received $80.00 from Borches & Co., for use of delivery equipment during April (§ 149, ¶ 7).

5. Gave Gibson & Perin a check for $56.03 in payment for office stationery, $33.53 (§ 148, ¶ 9) and advertising matter, $22.50 (§ 149, ¶ 3).

31. Partner's salaries, $200.00 (§ 148, ¶ 1).
Total of the General Administrative Expense column on the credit side of the cash book, $156.60.
Total of the Selling Expense column on the credit side of the cash book, $280.00.
At the close of the fiscal period, the proper accounts were debited with the following: insurance expired, $10.32 (§ 148, ¶ 8); the depreciation on office equipment and store fixtures, $33.53 (§ 148, ¶ 5); depreciation on delivery equipment, $45.00 (§ 149, ¶ 5); unpaid rent of warehouse for May, $50.00 (§ 148, ¶ 2); unpaid livery bill for May, $103.34 (§ 149, ¶ 2). The proper accounts were credited with the following: stationery on hand, $16.00 (§ 148, ¶ 11); the proportionate part of the drayage on merchandise purchased, $86.00 (§ 149, ¶ 6b); amount due from Borches & Co., for the use of our delivery equipment, $62.50 (§ 149, ¶ 7).

When all the transactions have been entered, close each account into the Profit and Loss account; enter the balance with black ink as in Illustrations Nos. 61 and 62. Rule each account with single and double red lines and foot with black ink. The value of the stationery on hand and the unpaid rent are entered below the ruling on the General Administrative Expense account, and the amount due from Borches & Co. and the unpaid livery bill entered below the ruling on the Selling Expense account as in the illustrations.

Exercise No. 65, Expense Accounts.

June 1. Paid telephone bill, $20.00 (§ 148, ¶ 3).
5. Paid for stamps, $10.00 (§ 148, ¶ 9).
6. Pay roll in selling department for the week, $40.00 (§ 149, ¶ 1).
8. Paid for varnishing office furniture, $5.75 (§ 148, ¶ 4).
10. Paid for stationery and blank books, $35.60 (§ 148, ¶ 9).
12. Paid for shoeing horses, $2.50 (§ 149, ¶ 2).
13. Pay roll in selling department for the week, $40.00.
15. Paid $18.00 for license (§ 148, ¶ 7).
20. Paid $10.00 for stamps.
Pay roll in selling department for the week, $40.00.
25. Paid for repairing floor in office, $12.00 (§ 148, ¶ 4).
27. Pay roll in selling department for the week, $40.00.
30. Partners' salaries, $200.00 (§ 148, ¶ 1).
Salaries of office help, $100.00 (§ 148, ¶ 6).

July 3. Pay roll in selling department for the week, $40.00.
6. Sold a customer stamps for $3.50 (§ 148, ¶ 12).
7. Paid collection charges on a note, $2.00 (§ 148, ¶ 10).
10. Paid $16.50 freight on merchandise sold a customer which we had agreed to deliver (§ 149, ¶ 4).
11. Pay roll in selling department for the week, $40.00.
Paid for board of horses, $35.00 (§ 149, ¶ 2).
13. Paid charges on a telegram, $1.00 (§ 148, ¶ 3).
16. Received $26.80 for delivery service (§ 149, ¶ 7).
18. Pay roll in selling department for the week, $40.00.
23. Paid for repairs on scales, $2.50 (§ 148, ¶ 4).
25. Pay roll in selling department for the week, $40.00.
31. Partners' salaries, $200.00.
Salaries of office help, $100.00.
At the close of the fiscal period, the proper accounts were debited with the depreciation on office equipment, $16.85 (§ 148, ¶ 5); store fixtures, $13.50 (§ 148, ¶ 5); delivery equipment, $18.00 (§ 149, ¶ 5); General Administrative Expense account was debited with $201.92, 1–6 (two months) of the amount ($1,211.50) paid for insurance (§ 148, ¶ 8); and Selling Expense with $33.33 unpaid pay roll (§ 149).

Close each account as in the illustrations.

Exercise No. 66, Expense Accounts.

Aug. 1. Paid rent in advance, $50.00.
2. Paid for telephone, $4.00.
3. Paid for license, $20.00.
15. Pay roll for office help, $36.50; clerks and drivers' salaries, $80.00 (§ 148, ¶ 6 and § 149, ¶ 2).
22. Paid for papering office, $16.50.
31. Partners' salaries, $150.00.
Pay roll for office help, $36.50; clerks and drivers' salaries, $80.00.

Sept. 1. Paid rent in advance, $50.00.
Paid for board of horses, $60.00 (§ 149, ¶ 2).
2. Paid advertising bill, $18.00 (§ 149, ¶ 3).
3. Paid phone rent, $4.00.
10. Paid blacksmith's bill, $10.50 (§ 149, ¶ 2).

(*Concluded on page 124.*)

(*Exercise No. 66—Continued from page 123.*)

Sept. 14. Paid for repairs on store fixtures, $12.65.
15. Pay roll: Office help, $36.50; clerks and drivers, $80.00.
23. Paid for stamps, $20.00.
24. Bought office stationery, $11.60.
27. Sold stamps for $4.50 (§ 148, ¶ 12).
30. Partners' salaries, $150.00.
Pay roll: Office help, $36.50; clerks and drivers, $80.00.
Oct. 1. Paid rent in advance, $50.00.
2. Paid phone rent, $4.00.
Paid for board of horses, $60.00.
10. Paid for repairs on office furniture, $9.60.
14. Collected for delivery service, $36.50 (§ 149, ¶ 7).
15. Paid for stamps, $10.00.
Paid advertising bill, $6.50.
Pay roll: Office help, $36.50; clerks and drivers, $80.00.
25. Paid $16.85 freight on merchandise delivered to a customer (§ 149, ¶ 4).
31. Pay roll: Office help, $36.50; clerks and drivers, $80.00.
Partners' salaries, $150.00.
At the close of the fiscal period, the General Administrative Expense account was debited with $22.50, ¼ (three months) of the amount ($90.00) paid for insurance. The proper accounts were debited with the depreciation on office equipment, $19.65; store fixtures, $12.50, and delivery equipment, $16.95.

Close each account as in the illustrations.

INSURANCE.

§ **150. Where there is a possibility** of property being destroyed by fire or other accidental causes, the owner should be protected against such loss by insurance. To secure this protection, it is necessary to obtain a policy from an insurance company for which a premium must be paid. The policy is the contract or agreement with the insurance company. The premium is the amount paid for the protection. Insurance policies are usually issued for one year, and the premium is based on this time. If the policy is issued for a less time, what is termed the "short rate" will be charged, that is, the premium will be the proportionate part of the year with a small additional charge.

¶ 1. *Policy Record.* A record of each policy should be kept in a specially prepared book which is known as the "Insurance Policy Record." This book is ruled to show the following information: date of the policy; the policy number; the name of the company issuing the policy; the property covered (merchandise, fixed assets, buildings, etc.); amount of insurance; date of expiration; total premium; and if desired, the monthly expirations. The object of this record is to provide a

INSURANCE POLICY RECORD

Date of Policy	No	Name of Company	Property Insured	Amount	Expires	Total Premium
1916						
Jan 15	21692	Royal	Stock	2000	Jan 15, 1917	29 80
Mar 30	390	Del Underwriters	Office Equip	3000	Mar 30, 1917	44 70
May 5	15321	Preferred Accident	Delivery "	1500	May 5, 1917	22 35
July 16	16938	Standard	Stock	5000	July 16 1917	74 50

Illustration No. 63, Left page of Insurance Policy Record.

list of all insurance policies that the value of the insurance expired during the fiscal period may be readily ascertained. This record is also important in case of a fire or the loss of a policy. As a rule the agent of the insurance company will see that each policy is renewed, but it is advisable for the management to have a record of the insurance that the renewal of policies may not be neglected. See Illustration No. 63.

INSURANCE ACCOUNT.

§ 151. **The Object of this Account** is to show the amount paid for insurance. As the property insured may be of different natures and affect different operating accounts, it is best to charge all amounts paid for insurance to the Insurance account, and at the close of each fiscal period, credit this account with the insurance that has expired, and debit the operating account or accounts affected.

Debit the Insurance Account:

¶ 1. With all amounts paid for insurance premiums.

Credit the Insurance Account:

¶ 2. With insurance premiums refunded on canceled policies.

¶ 3. At the close of each fiscal period for the proportion of insurance expired.

Insurance

19					19				
Apr	11	C.	49 50		May	31	J 12	10	31
May	19	C 7	24 75						
			1 4 2 5						

Illustration No. 64, Insurance Account.

¶ 4. *The Balance of this Account*, after the credits have been entered, shows the amount of unexpired insurance. It is shown as a deferred charge to operations on the Balance Sheet.

¶ 5. *To Close the Insurance Account.* This account is closed in the same manner as the Office Equipment account (§ 132, ¶ 6).

NOTE. If the cost of insurance does not affect a number of operating accounts, the value of the unexpired insurance at the close of the fiscal period may be closed into the Deferred Charges to Operations account (§ 183), in which case the balance of the Insurance account will show the cost of insurance for the period.

Another practice which is permissible, is to debit the Deferred Charges to Operations account for the value of the unexpired insurance, debit the proper operating accounts for the value of the insurance expired, and credit the Insurance account. In this case, the value of the unexpired insurance will be shown in the Deferred Charges to Operations account and remain there until this account is closed (§ 183, ¶ 5).

INSURANCE POLICY RECORD.

Monthly Expirations												Amount Carried Forward
Jan	Feb.	March	April	May	June	July	Aug.	Sept.	Oct	Nov	Dec.	
2.48	2.48	2.48	2.48	2.48	2.48	2.48	2.48	2.49	2.49	2.49	2.49	
			3.72	3.72	3.72	3.72	3.72	3.72	3.73	3.73	3.73	11.19
				1.86	1.86	1.86	1.86	1.86	1.86	1.86	1.86	7.47
						6.20	6.20	6.21	6.21	6.21	6.21	37.26

Illustration No. 63, Right page of Insurance Policy Record.

BOOKS OF ACCOUNT.

§ 152. The Books of Account used in this set consist of the purchases book, sales book, journal, and cash book as books of original entry; the notes payable book, notes receivable book, and check book as auxiliary books; and the ledger as the book of complete entry. A special form of purchases book, sales book, and cash book is used; the journal and ledger are ruled the same as in Part I.

§ 153. Purchases Book. The entry for each invoice is made on one line as follows: 1st, date of entry; 2d, name of the person from whom the merchandise was purchased; 3d, address; 4th, date of invoice; 5th, terms; and 6th, amount of invoice. This information is obtained from the invoices received. Special columns are provided in the purchases book to facilitate recording each purchase in the order mentioned. After the entry is made the invoice is filed for future

Cash Receipts

April, 19

Date	I.F	Name of Account	Explanation	General Cr.	Sales Cr.	Pur. Disct Cr.
2		C. W. Keeland, Capital	Investment	1400		
		A. D. Munson, Capital	"	1500		
5	√	Sales	Cash sales		323 65	
6		J. M. Farris	On account	20		
		Jones Brick Co	" "	27 25	323 65	
9		Stewart & McCampbell	In full of acct	53 41		
		A. Scarborough	On account	30		
10	✓	Purchases Discount	J. H. McL. Co			11 16
12	✓	Sales	Cash sales		190 47	
14		J. L. Luttrell	On account	27 50		
	✓	Purchases Discount	Jellico C. M. Co.	3055 71	514 12	5585 74
28	✓	Sales	Cash sales		120 69	
30		A. K. Harper & Co	In full of acct	286 39		
		Day Foundry & Mach. Co	On account	3938 45 77	1381 50	27 45
		Purchases Discount	Total for month	27 45		27 45
		Sales	" " "	1387 50	1387 50	
				5355 72		

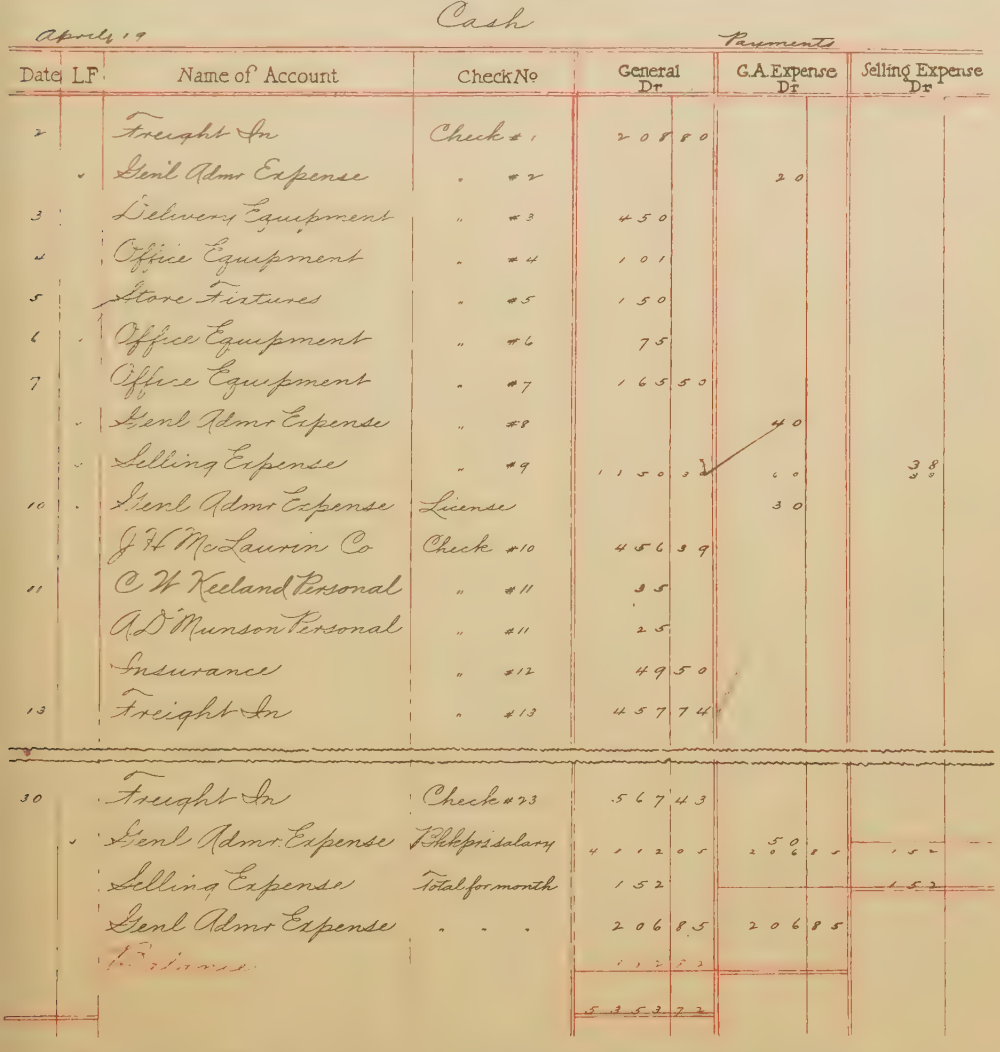
Illustration No. 65, Debit Side of Cash Book, April, Partnership Set.

*This indicates that twelve entries are omitted.

reference. When the merchandise is shipped from a distance, the date of entry may be either the date the invoice is received or the date the merchandise is received. In this set, the date of entry is the date the merchandise is received.

¶ 1. *Posting from the Purchases Book.* Each amount entered in the "Amount" column is posted to the credit side of the account written on the same line with it. The date of the invoice and the terms are indicated in the explanation column. The address of the creditor should be given in the ledger. The Purchases account is not debited with the amount of *each* invoice, but with the *total* purchases at the end of the month, or when the Trial Balance is to be taken.

§ 154. Sales Book. A carbon copy of the bill rendered to a customer provides the most convenient record of sales on account, and is used almost exclusively by business concerns. The original is sent to the customer and the duplicate filed in a binder, the contents of this binder being the sales book record. To avoid the


Cash

April, 19 — Payments

Date	L.F.	Name of Account	Check No	General Dr	G.A. Expense Dr	Selling Expense Dr
2		Freight In	Check #1	208 80		
	✓	Genl Admn Expense	" #2		20	
3		Delivery Equipment	" #3	450		
4		Office Equipment	" #4	101		
5		Store Fixtures	" #5	150		
6		Office Equipment	" #6	75		
7		Office Equipment	" #7	165 50		
	✓	Genl Admn Expense	" #8		40	
	✓	Selling Expense	" #9	150 00	60	38 90
10		Genl Admn Expense	License		30	
		J H McLaurin Co	Check #10	456 39		
11		C H Keeland Personal	" #11	35		
		A D Munson Personal	" #11	25		
		Insurance	" #12	49 50		
13		Freight In	" #13	457 44		
30		Freight In	Check #73	567 43		
	✓	Genl Admn Expense	Bkkpr's salary	411 20	206 85	1 52
		Selling Expense	Total for month	152		152
		Genl Admn Expense	. . .	206 85	206 85	
		Purchases		1253		
				5453 72		

Illustration No. 66, Credit Side of Cash Book, April, Partnership Set.
*This indicates that fifteen entries are omitted.

loss of a bill or duplicate, bills and duplicates should be numbered the same and in consecutive order.

¶ 1. *Cash Sales.* Cash sales are not recorded with the sales on account. In a retail business these are usually taken care of through the cash register record, the total being entered direct in the cash book. In a wholesale business where there are few cash sales, the duplicate of the bill rendered the customer is entered in the sales book and his account charged with this amount; he is credited in the cash book with the cash received. Where the cash sales are numerous, it is best to provide a special binder in which to file them.

¶ 2. *Posting from the Sales Book.* Each person or firm is charged with the amount of his purchase as indicated on the carbon copy of the bill. The number of the sale, or the page in the sales book is indicated in the folio column in the ledger account, and the ledger page is written on the duplicate bill to indicate posting. Special terms are entered in the explanation column of the ledger. The address of the customer is given in the ledger. The Sales account is not credited with the amount of *each* sale, but with the *total* sales at the end of the month or when the Trial Balance is to be taken.

NOTE. Some accountants advise a journal entry for the totals of the purchases and sales books at the end of the month. When this plan is followed, the entry for the total of the purchases book would be Purchases Dr. and Accounts Payable or Purchases Ledger Cr. The entry for the total of the sales book would be Accounts Receivable or Sales Ledger Dr., and Sales Cr. If special ledgers are not kept with customers and creditors, the credit in the first entry and the debit in the second entry are checked. This plan facilitates auditing.

§ 155. ***The Cash Book** is ruled with three money columns on each side as in Illustrations Nos. 65 and 66. The method of recording cash transactions is the same as that followed in the preceding set with the exception of the use of the extra columns. Amounts to be posted to separate accounts in the ledger are entered in the first column on either side; amounts received for cash sales of merchandise, in the second column on the debit side; amounts deducted for prompt payment of invoices, in the third column on the debit side; amounts paid for general administrative expense, in the second column on the credit side, and amounts paid for selling expense, in the third column on the credit side. The purpose of the two special columns on each side is to save time in posting.

¶ 1. *Posting from the Debit Side of the Cash Book.* Each amount entered in the first column is posted to the credit side of the account written on the same line with it. The amounts in the second and third columns are not posted until the end of the month when the total of each column is posted to the credit side of the account indicated at the top.

¶ 2. *Posting from the Credit Side of the Cash Book.* Each amount entered in the first column is posted to the debit side of the account written on the same line with it. The second and third columns are not posted until the end of the month when the total of each column is posted to the debit side of the account indicated at the top.

¶ 3. *To Prove Cash.* Foot the three columns on the debit side and place the totals in small pencil figures just beneath the blue line on which the last entry is

*NOTE. The form of cash book described above is not considered the best by some accountants, but is quite popular with many bookkeepers. It affords an accurate check on those transactions in which discount is deducted. By placing the discount deducted on the opposite side, errors made in deducting the discount from the amount of the bill or writing the check will be discovered, because the cash will not prove unless the deductions are correct. An error in adding the discount column will be discovered, because the cash will not prove unless this column is added correctly. One objection offered by accountants is that the net amount of cash received and paid is not shown. To ascertain the amount of cash received, add the totals of the first two columns on the debit side and deduct from this any discount entered on the credit side. To ascertain the amount of cash paid, add the totals of the three columns on the credit side and deduct from this the total of the third column on the debit side. Another form of the cash book in which this objection is overcome will be explained later in this set.

made. The total of each of the three columns is written beneath the same blue line. Foot the three columns on the credit side and place the total of each column just beneath the blue line on which the last entry is made. The total of each column is placed beneath the same blue line. On a piece of scratch paper add the totals of the three columns on the debit side and the totals of the three columns on the credit side. The difference between these two amounts is the amount of cash on hand; this should equal the amount in the bank and in the cash drawer.

§ 156. Auxiliary Books. The purpose of an auxiliary book is to provide additional information in regard to the transactions which are recorded in a book of original entry. The page of the auxiliary book where this information is provided should be indicated in the book of original entry where the transaction is recorded. The auxiliary books used in this set are the check book, notes receivable book and notes payable book. Other auxiliary books will be illustrated in the succeeding sets.

§ 157. Check Book. As explained in § 105, banks provide blank checks bound in book form to be used by depositors for withdrawing money on deposit. The check book used in this set is provided with three checks to the page, as shown in Illustration No. 67. The Illustration also shows the method of keeping the bank account.

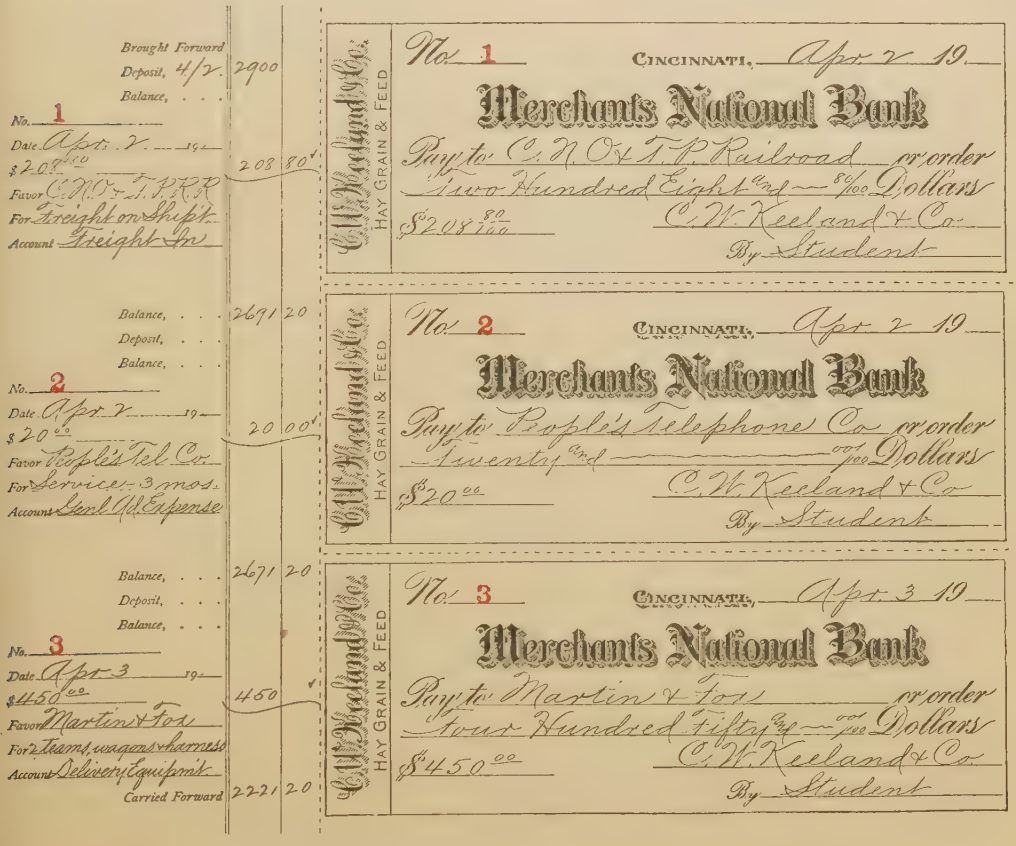


Illustration No. 67, Check Book for Partnership Set.

NOTES RECEIVABLE

Date Received	Our No.	(Draft) DRAWER OR (Note) ENDORSER	(Note) MAKER OR (Draft) DRAWEE (Payer)	IN WHOSE FAVOR (Payee)	WHERE PAYABLE
April 16	1	Young & Doyle	James B. Ford	Young & Doyle	Merchants Natl Bank
24	2	Lee & Roberts	Moses A Palmer	Lee & Roberts	Cleveland Natl Bank
30	3		A K Harper & Co	C. W. Keeland & Co	Bank of Marysville
May 11	4		Young & Doyle	C. W. Keeland & Co	Merchants Natl Bank
11	5	C. W. Keeland & Co	W. H. Ingram	First Natl Bank, Pittsburgh	First Natl Bank

Illustration No. 68, Left Page of Notes Receivable Book.

NOTES PAYABLE

Date Received	Our No	(Draft) DRAWER OR (Note) ENDORSER	(Note) MAKER OR (Draft) DRAWEE (Payer)	IN WHOSE FAVOR (Payee)	WHERE PAYABLE
April 6	1		C W Keeland & Co	Hall Safe & Lock Co.	Merchants Natl Bank
6	2		" " "	" " "	" " "
10	3	Capital Grain Co	" " "	Third Natl Bank Denver	" " "
19	4	L Fowler	" " "	Merchants Natl Bank	" " "
21	5	J Allen Smith & Co	" " "	" "	" " "
21	6	Western Hay & Grain Co	" " "	" "	" " "

Illustration No. 69, Left Page of Notes Payable Book.

§ 158. Notes Receivable Book. This is an auxiliary book in which detailed information relative to notes and acceptances from customers is recorded. This information includes the date, name of the person or firm from whom the note or acceptance is received, the endorser, bank where payable, date of issue, when due, and when paid or discounted. This book is ruled as shown in Illustration No. 68.

¶ 1. *To Audit the Notes Receivable Book.* Each note or acceptance received is entered in the notes receivable book when received; when paid, the date of the payment is entered in the "When Paid" column. The total of the unpaid notes or accepted drafts as indicated by the record in the notes receivable book should be the same as the balance of the Notes Receivable account, also the total of the notes and accepted drafts on hand. When a note or accepted draft is sent to a bank or collection agency for collection, the date and the name of the bank or collection agency is written in the "Remarks" column. The total of these should be included with the value of the notes on hand because they are not paid. Notes discounted at the bank should not be marked paid in the "When Paid" column unless the bank reports payment. The name of the bank and the date of discount should be written in the "Remarks" column. The value of these is not considered in the audit of the notes receivable book unless an account is kept with Notes Receivable Discounted, in which case, the balance of the Notes Receivable Discounted account would equal the total of the notes discounted as shown by the record in the notes receivable book. The record in the notes receivable book should be audited at least once each month.

§ 159. Notes Payable Book. This is an auxiliary book in which detailed information relative to notes signed and drafts accepted by the business is recorded. This information includes the date, the person or firm who received the note or acceptance, the bank where payable, date of issue, when due, and when paid. This book is ruled as shown in Illustration No. 69.

NOTES RECEIVABLE

DATE OF PAPER YEAR	DATE OF PAPER MONTH	TIME TO RUN	WHEN DUE Year	Jan. 1	Feb. 2	Mar. 3	Apr. 4	May 5	June 6	July 7	Aug. 8	Sep. 9	Oct. 10	Nov. 11	Dec. 12	AMOUNT	Rate of Int'st	WHEN PAID	REMARKS
19	Mch 1	60 da	19				30									250	6%	May 1 19	Left at bank $25
19	Apr 14	30 "	19					14								97 65		14 19	
19	" 29	20 "	19					19								300		22 19	Sent to bank 9/7
19	May 11	30 "	19						10							364 70	6%	June 11 19	Left at bank 9/5
19	" 11	Sight	19													194 37		May 16 19	

Illustration No. 68, Right Page of Notes Receivable Book.

NOTES PAYABLE

DATE OF PAPER YEAR	DATE OF PAPER MONTH	TIME TO RUN	WHEN DUE Year	Jan. 1	Feb. 2	Mar. 3	Apr. 4	May 5	June 6	July 7	Aug. 8	Sep. 9	Oct. 10	Nov. 11	Dec. 12	AMOUNT	Rate of Int'st	WHEN PAID	REMARKS
19	Apr. 6	30 da	19					6								75		May 7 19	
19	" 6	60 "	19						5							50		June 5 19	
19	" 7	10 "	19				17									256 01		Apr. 18 19	
19	" 21	30 "	19					21								300		May 21 19	
19	" 25	30 "	19					25								121 20		25 19	
19	" 28	3 "	19					1								669 53		May 1 19	

Illustration No. 69, Right Page of Notes Payable Book.

¶ 1. *To Audit the Notes Payable Book.* Each note signed or draft accepted is entered in this book when issued; the payment is indicated in the column provided for this purpose. The total of the unpaid notes as shown by the notes payable book should agree with the balance of the Notes Payable account in the ledger. This audit is usually made once each month.

BUSINESS FORMS.

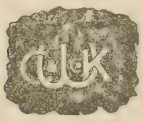
§ **160. Business Letter.** A business letter is a written communication relating to a business transaction, either completed or to be completed. A letter should be mechanically correct in form, brief but explicit, and contain all the required information. The important elements of a business letter are as follows: the date; the name and address of the person to whom the letter is written; the salutation; the body of the letter; the complimentary closing; the signature. The margin at the left and the right will depend upon the length of the letter, but it should not be less than one inch on each side. If the letter requires more than one page, the second page should not begin on the back of the first sheet. A carbon copy of each letter should be retained. It shows ignorance and a lack of business courtesy to answer a business letter on the original letter either on the back or front. See Illustration No. 70 for one form of a business letter.

A business letter may be written with either a pen or typewriter, but should not be written with a pencil. The arrangement of the margin in the illustration is satisfactory for a typewritten letter. For a letter written with a pen, it is customary to allow the line beginning a paragraph the same space as is allowed for the margin, also to leave no blank lines between the name of the person to whom the letter is written and the salutation. The appearance of a business letter is just as important as the personal appearance of a representative. No matter how well a letter may be constructed, if the arrangement is poor, it will have the same attention as a carelessly dressed representative.

C.W KEELAND

TELEPHONE 358

A.D MUNSON



C. W. Keeland & Co.

DEALERS IN

Hay, Grain, Feed and Coal

WEIGHTS GUARANTEED TO BE AS REPRESENTED

CINCINNATI, OHIO, April 7, 19

Young & Doyle,
1306 Grand Ave.,
City.

Gentlemen:-

Replying to your letter of this date asking for price on No. 2 Hay in carload lots, will quote you $15.00 per ton, delivered at your place of business. We have a car in the yards and can have it placed on your siding tomorrow.

Kindly advise us at once, as we could not make this price unless we were permitted to unload the car at your warehouse.

Very respectfully,

C. W. KEELAND & CO.

S/K

per *Student*

Illustration No. 70, Business Letter.

§ 161. A Statement of Account. This is a copy of a personal account as it appears on the ledger. It is customary to render a statement on the first of each month. This shows the balance at the beginning of the month, each bill rendered during the month, each credit for cash or other property accepted on account, and the balance due. The statement should show the date of each bill rendered and any special terms indicated on it. The balance as shown by the statement should be the same as the balance of the account in the ledger. The efficient bookkeeper will check these balances with those used in his Trial Balance before mailing the statements. See Illustration No. 71.

C. W. KEELAND FOLIO 1 — MONTHLY STATEMENT OF ACCOUNT — A. D. MUNSON

A

May 1, 19—

Mr. Client Supposed

IN ACCOUNT WITH 1429 Main St.

C. W. KEELAND & CO.

DEALERS IN

HAY, GRAIN, FEED AND COAL

INTEREST CHARGED ON ALL BILLS PAST DUE — ALL BILLS DUE FIRST OF THE MONTH FOLLOWING SALE

		Balance			
Apr.	5	Mdse. per Bill Rendered			16 60

C. W. KEELAND FOLIO 2 — MONTHLY STATEMENT OF ACCOUNT — A. D. MUNSON

B

May 1, 19—

M. J. W. Blackburn

IN ACCOUNT WITH 1219 Asylum St.

C. W. KEELAND & CO.

DEALERS IN

HAY, GRAIN, FEED AND COAL

INTEREST CHARGED ON ALL BILLS PAST DUE — ALL BILLS DUE FIRST OF THE MONTH FOLLOWING SALE

		Balance			
Apr.	13	Mdse. per Bill Rendered	28 05		
	26		49 10		77 15

C. W. KEELAND FOLIO 3 — MONTHLY STATEMENT OF ACCOUNT — A. D. MUNSON

C

May 1, 19—

Mr. John Farrell

IN ACCOUNT WITH 1207 Riverside Ave.

C. W. KEELAND & CO.

DEALERS IN

HAY, GRAIN, FEED AND COAL

INTEREST CHARGED ON ALL BILLS PAST DUE — ALL BILLS DUE FIRST OF THE MONTH FOLLOWING SALE

		Balance			
Apr.	5	Mdse. per Bill Rendered	24		
		Cr.			
	6		20		14

C. W. KEELAND FOLIO 4 — MONTHLY STATEMENT OF ACCOUNT — A. D. MUNSON

D

May 1, 19—

M. Bay Foundry & Machine Co.

IN ACCOUNT WITH 216 Jackson Ave.

C. W. KEELAND & CO.

DEALERS IN

HAY, GRAIN, FEED AND COAL

INTEREST CHARGED ON ALL BILLS PAST DUE — ALL BILLS DUE FIRST OF THE MONTH FOLLOWING SALE

		Balance			
Apr.	9	Mdse. per Bill Rendered	97		
	18		173 40		270 40
		Cr.			
	19		67 56		
	21		173 40		
	29		18 45		259 41
					10 05

C. W. KEELAND FOLIO 5 — MONTHLY STATEMENT OF ACCOUNT — A. D. MUNSON

E

May 1, 19—

M. Dr. J. Hall & Son

IN ACCOUNT WITH 306 Broadway

C. W. KEELAND & CO.

DEALERS IN

HAY, GRAIN, FEED AND COAL

INTEREST CHARGED ON ALL BILLS PAST DUE — ALL BILLS DUE FIRST OF THE MONTH FOLLOWING SALE

		Balance			
Apr.	2	Mdse. per Bill Rendered	39 41		
	19		57 91		97 32
		Cr.			
	22				26 75
					70 57

C. W. KEELAND FOLIO 6 — MONTHLY STATEMENT OF ACCOUNT — A. D. MUNSON

F

June 1, 19—

M. Quaid & De Armond

IN ACCOUNT WITH 1215 Asylum St.

C. W. KEELAND & CO.

DEALERS IN

HAY, GRAIN, FEED AND COAL

INTEREST CHARGED ON ALL BILLS PAST DUE — ALL BILLS DUE FIRST OF THE MONTH FOLLOWING SALE

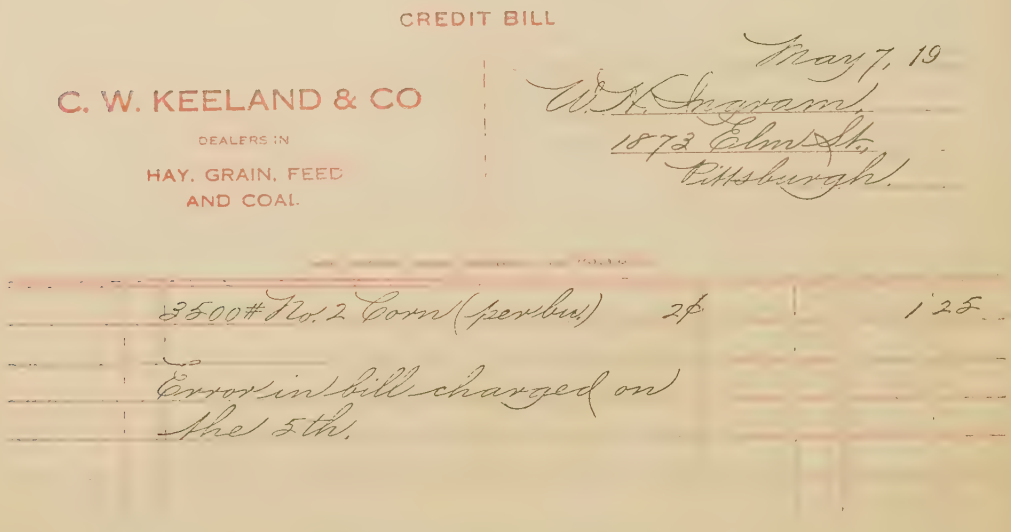
May	1	Balance	82 44		
	9	Mdse. per Bill Rendered	82 81		165 25
		Cr.			
	1	Cash	65		
	22		96 50		161 50
					3 75

Illustration No. 71, Statements of Accounts.

EXPLANATION. This illustration shows the form of a statement to be rendered when the account with a customer has (a) one debit, (b) more than one debit, (c) one debit and one credit, (d) more than one debit and more than one credit, (e) more than one debit and one credit, (f) a balance from a preceding month, one debit and more than one credit. These correspond in form to those required of the student, May 1, but the names of accounts and amounts are not all the same.

Statements paid in full should be receipted by the name of the firm and that of the person who received the money; partial payments should be indicated only by the date and amount similar to the credits in the statements in the illustration.

§ **162. Credit Bill.** This is a statement sent by the seller to the buyer showing that his account has been credited for the items described therein. A credit bill may be rendered for cash received, rebates allowed for damaged goods, errors in extensions of bills, etc. The form is similar to that of an invoice or bill. It is customary to print the credit bill with a different colored ink or on a different colored paper from that of the bill to distinguish between them. See Illustration No. 72.


CREDIT BILL

C. W. KEELAND & CO

DEALERS IN

HAY, GRAIN, FEED AND COAL.

May 7, 19

W. H. Ingram,
1872 Elm St.,
Pittsburgh.

2500# No. 2 Corn (per bu.) 2¢ 1 25

Error in bill charged on the 5th.

Illustration No. 72, Credit Bill.

§ **163. Bill of Lading.** This is a receipt issued by a transportation company for property received for shipment. There are two forms of bills of lading, straight and order. These are issued by steam and electric railroads, express, and steamship companies. Bills of lading are made in triplicate and are supplied to the shipper by the transportation company, unless he wishes to use a special form. The form issued by a transportation company doing an interstate business is governed by a ruling of the Interstate Commerce Commission. If the shipper provides his own bill of lading it must conform with this form. By using two sheets of carbon paper the triplicate form can be made with one writing. One copy is retained by the transportation company, one by the shipper and the other is sent to the consignee. See "Special" on page 142.

The form of the bill of lading required by the Interstate Commerce Commission must be 8½ inches wide and 7 inches long or 8½ inches wide and 11 inches long. A different color may be used for each copy of the triplicate form, but it is left to the shipper as to whether he uses one or more colors.

The above discussion relates to the straight bill of lading which is issued for all shipments that are not to be paid for before delivery. The "order" bill of lading will be discussed later.

§ **164. Telegram.** A telegram is a communication or message sent by means of a telegraph company. There are two leading companies in the United States, The Postal Telegraph Cable Co., and the Western Union Telegraph Co. The charge for a message is based on the distance, the number of words in the message, and the time of sending it. See "Special" on page 142.

For use in connection with the Standard form of Straight Bill of Lading approved by the Interstate Commerce Commission by Order No. 787 of June 27, 1908.

3

.....Railroad Company Shippers No.....

THIS MEMORANDUM is an acknowledgment that a bill of lading has been issued and is not the Original Bill of Lading nor a copy or duplicate, covering the property named herein and is intended solely for filing or record. Agents No.....

RECEIVED, subject to the classifications and tariffs in effect on the date of the receipt by the carrier of the property described in the Original Bill of Lading.

at 208 Commerce St.....19 ..., From **C. W. KEELAND & CO.,**

Illustration No. 73. Third Form of Bill of Lading.

For use in connection with the Standard form of Straight Bill of Lading approved by the Interstate Commerce Commission by Order No. 787 of June 27, 1908.

2

.....Railroad Company Shippers No.....

THIS SHIPPING ORDER must be legibly filled in, in Ink, in Indelible Pencil, or in Carbon and retained by the Agent. Agents No.....

RECEIVED, subject to the classifications and tariffs in effect on the date of issue of this Shipping Order

at 208 Commerce St.....19 ....., From **C. W. KEELAND & CO.,**

Illustration No. 73. Second Form of Bill of Lading.

Uniform Bill of Lading--Standard form of Straight Bill of Lading approved by the Interstate Commerce Commission by Order No. 787 of June 27, 1908.

1

B. & O. S. W. Railroad Company Shippers No.....

STRAIGHT BILL OF LADING--ORIGINAL--NOT NEGOTIABLE. Agents No.....

RECEIVED, subject to the classifications and tariffs in effect on the date of issue of this Original Bill of Lading.

at 208 Commerce St. May 5, 19 ..., From **C. W. KEELAND & CO.,**

The property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned and destined as indicated below, which said Company agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route to destination and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions, whether printed or written, herein contained (including conditions on back hereof), and which are agreed to by the shipper and accepted for himself and his assigns.

The rate of Freight from .....to Pittsburgh is in cents per 100 Lbs.

IF...Times 1st	IF 1st Class	IF 2d Class	IF Rule 25	IF 3d Class	IF Rule 26	IF Rule 28	IF 4th Class	IF 5th Class	IF 6th Class	IF Special per ...	IF Special per ...

(Mail address—Not for purposes of Delivery.)

Consigned to W. H. Ingram 1873 Elm St.

Destination, Pittsburgh **State of** Penna. **County of** Allegheny

Route, Your line **Car Initial**.....**Car No.**.....

No. Packages	Description of Articles and Special Marks	Weight (Sub. to Cor.)	Class or Rate	Check Column
60	scks. #1 Corn	6082#		
60	" #2 Corn	6114#		
60	" Oats	3849#		

If charges are to be prepaid, write or stamp here, "To be prepaid."

Received $ ..... to apply in prepayment of the charges on the property described hereon.

Agent or Cashier.

Per .....
(The signature here acknowledges only the amount prepaid.)

Charges Advanced.

$.....

C. W. KEELAND & CO., Shipper, Per B .....**Agent, Per**.....

(This Bill of Lading is to be signed by the shipper and agent of the carrier issuing same.)

Illustration No. 73. First or Original Form of Bill of Lading.

NOTE—That part of illustrations of forms 2 and 3 not shown, is the same as the lower part of the illustration of the first or original form.

Illustration No. 73, Original Bill of Lading and the two Copies.

There are four classes of telegrams—the fast day message, day letter, night message, and night letter.

¶ 1. *The Fast Day Message* is one on which the charge is based on ten words, and is accepted by the telegraph company to be sent as soon as received and delivered at its destination as soon as received. A fixed rate is charged for each word in excess of ten.

POSTAL TELEGRAPH-COMMERCIAL CABLES

RECEIVED AT — THOMAS W. BAKER, President — DELIVERY No.

TELEGRAM

The Postal Telegraph-Cable Company (Incorporated) transmits and delivers this message subject to the terms and conditions printed on the back of this blank.

May 12 19

Short Bros.,

Cleveland.

Number one corn sixty seven cents bushel f. o. b. cars here.

C. W. KEELAND & CO.

Illustration No. 74, Fast Day Message, ¶ 1.

¶ 2. *A Day Letter* is a message on which the charge is based on fifty words and is accepted by the telegraph company to be sent some time during the day and delivered when received at its destination. Fast day messages take precedence over day letters both in the sending and the delivering. A fixed rate is charged for each word in excess of fifty.

NIGHT LETTER

THE WESTERN UNION TELEGRAPH COMPANY

INCORPORATED

25,000 OFFICES IN AMERICA — CABLE SERVICE TO ALL THE WORLD

ROBERT C. CLOWRY, President — BELVIDERE BROOKS, General Manager

RECEIVER'S NO	TIME FILED	CHECK

SEND the following NIGHT LETTER subject to the terms on back hereof which are hereby agreed to

May 14, 19

To Anderson, Peck & Fowler,

Clinton, N. Y.

Fast freight Short Bros., Cleveland, one car number one corn, and W. H. Ingram, Pittsburg, one car number one hay. Show freight rate on bill of lading sent each consignee. Send invoice to us and charge to our account. Advise us freight rate on each shipment.

C. W. KEELAND & CO.

Illustration No. 75, Night Letter, ¶ 4.

¶ 3. *A Night Message* is one on which the charge is based on ten words, and is accepted by the telegraph company to be sent during the night and delivered the next morning. The charge is less than that for the fast day message, with a fixed charge for each word in excess of ten.

¶ 4. *A Night Letter* is a message on which the charge is based on fifty words, and is accepted by the telegraph company to be sent during the night and delivered the next morning. The charge is the same as that for the fast day message, with an extra charge for each word in excess of fifty.

§ **165. A Certified Check** is a personal check guaranteed by the bank on which it is drawn. It is certified by writing or stamping across the face the word "Certified" together with the name of the bank and the signature of the cashier or other official authorized to make certification. Certification may be required by the drawer or the holder. Checks are certified to prevent the drawer from withdrawing the funds on deposit before the check is presented. When the bank certifies a check it becomes responsible for its payment. For this reason it is at once charged to the depositor's account.

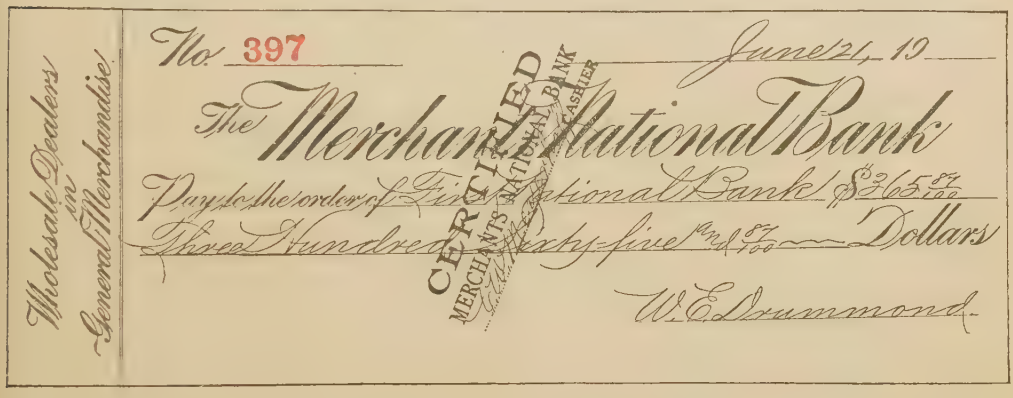


Illustration No. 76, Certified Check.

GENERAL INFORMATION.

§ **166. Terms on Bills.** These indicate special information in regard to the time of payment and the discount to be deducted. "2/10, n/30" indicates that, if payment is made within 10 days, a discount of 2% may be deducted. If payment is made after that time, no discount will be allowed and the invoice is past due after the expiration of 30 days. "October 1, 3/30, n/60" indicates that if payment is made within 30 days from October 1, a discount of 3% may be deducted, but no discount is to be deducted if payment is made after that time and the invoice is past due after the expiration of 60 days.

§ **167. Part Payment of Invoices or Bills Subject to a Discount.** It is not necessary to pay the full amount of an invoice or bill within the discount period in order to secure a discount on the payment. If a part payment is made, it is necessary to divide the amount of the payment by one hundred less the rate of discount in order to ascertain the value of the payment. If the face of the invoice is $200.00 and the rate of discount 3%, it would require $194.00 for full payment within the discount period. The amount of cash ($194.00) is not used in calculating the discount, which is calculated on the amount of the indebtedness

($200.00) When only a part payment is made, the amount of the cash is divided by 100 minus the rate in order to ascertain the value of the debit or credit resulting from the payment. The reason for this is because it is a percentage problem in which the difference (base minus the rate) and the rate are given and the base is required. The result of this division is the base; the difference between the base and the amount of the payment is the discount.

Example: $190.00 is received as part payment of a sale which was subject to a 5% discount—$190.00 ÷ .95 (100—.05) = $200.00. The customer is credited with $200.00 and Sales Discount debited with $10.00. We send a check for $500.00 as part payment of an invoice subject to a 3% discount—$500.00 ÷ .97 (100—.03) = $515.46. We charge the creditor with $515.46 and credit Purchases Discount with $15.46.

Exercises in Receipts and Payments, Less Discount, in Full and in Part.

Make the required entries in the cash book for the following exercises. Use the inside of a double sheet of journal paper and write the debit entries on the left, and the credit entries on the right. (§ 167.)

Exercise No. 67.

1. January 9th, bought of L. H. Mabley, 3/10—n/30, $162.95. Paid this amount in full by check, January 18th. (Make the entry for the payment, but not for the purchase.)

2. February 5th, sold M. D. Puterbaugh, 4/10—n/30, $429.86. Received a check in payment of this on the 14th.

3. May 27th, bought from Union Mfg. Co., 3/10—n/60, $529.48. Paid June 5th.

4. March 4th, bought of Anderson & Mumford, 5/10, 3/30—n/60, $1,642.87. Made payments as follows: March 12th, $950.00; March 25th, $291.00; March 31st, $97.00; April 2d, $97.00; May 1st, the balance.

5. July 16th, sold F. W. Ellis, 3/10, 2/30—n/60, $1,262.48; July 25th, received a check for $485.00; August 9th, $196.00; August 14th, $392.00; September 1st, $100.00; September 15th, the balance.

6. August 10th, bought of Davis Bros., 6/10, 5/30, 3/60—n/90, $2,992.50. Made payments as follows: August 19th, $1,500.00; August 31st, $500.00; September 30th, $400.00; October 9th, $100.00; December 1st, the balance.

7. July 3d, sold C. E. Huff, 5/10, 3/30, 2/60—n/90, $2,556.98. Received payments as follows: July 12th, $1,200.00; July 31st, $500.00; August 26th, $400.00; September 2d, $100.00; October 1st, $100.00; November 1st, the balance.

8. November 16th, bought from Cecil Bros., 3/10—n/30, $526.49. Paid, November 24th.

9. April 10th, sold J. T. Wissell, 4/10—n/60, $397.62. Received check in full, April 20th.

10. September 14th, bought from R. N. Gardner, 2/30—n/60, $629.07. Paid, October 12th.

11. October 11th, sold J. H. Schulmann, 4/10, 3/30, 1/60—n/90, $729.62. Received payment as follows: October 18th, $300.00; November 8th, $250.00; December 6th, $100.00; January 1st, the balance.

12. May 24th, bought of George Wolf & Sons, 7/10, 5/30, 3/60, 2/90—n/120, $4,782.63. Paid as follows: June 3d, $2,000.00; June 23d, $200.00; July 20th, $250.00; August 20th, $100.00; September 1st, $100.00; October 1st, the balance.

§ 168. Collecting Notes and Drafts. Collection may be made at the office of the holder, or through the bank at which the holder does business, the bank at which the maker does business, or any bank designated by the holder. The endorsement on a note or draft sent for collection should be "Pay to the order of (the name of the bank to make the collection) for collection and remittance," or "Pay to the order of (name of bank) for collection and credit." The former endorsement indicates that the holder wishes remittance for the collection and the latter that he wishes it placed to his credit. The former is used when the note is sent to a bank other than that at which the holder does business, and the latter when sent to his bank. If the words "For collection" are omitted the collection agency might use the paper for its own benefit.

§ 169. How to Correct Errors. Errors should not be made, but if made must be corrected. When possible an error should be corrected by an entry in the journal. If this can not be done, a single red line should be drawn through the amount only, and the correct amount written just above. Never draw the red line through the date, name of the account, or explanation. Do not erase either in the book of original entry or complete entry.

§ 170. Exchange. Exchange is a sight draft drawn by one bank on another bank. Exchange takes its name from the city in which the bank that is to pay the draft is located. A draft on a bank in New York is termed New York Exchange; on a bank in Chicago, Chicago Exchange; on a bank in New Orleans, New Orleans Exchange, etc. When the bank on which the draft is drawn is located in the same country, it is designated as "Domestic Exchange;" when in a foreign country, "Foreign Exchange." Domestic Exchange is represented by one draft; Foreign Exchange may be represented by one draft or three, each being sent by a separate route, the one received first being honored, and the others dishonored.

§ 171. Arrangement of Accounts in the Ledger. If the volume of business is large, it is better to keep three separate ledgers, one for the general accounts, one for accounts with creditors, and one for accounts with customers. If only one ledger is used, this should be divided into three parts, and the three classes of accounts mentioned above kept in separate parts of the ledger. In such a case it is better to reserve the first part of the ledger for the general accounts, the second part for accounts with creditors, and the third part for accounts with customers. The division of the ledger into sections applies to either a loose leaf or bound ledger. This division requires less time for posting, checking statements received from creditors and rendering statements to customers.

§ 172. Index to Ledger. The object of the index is to facilitate finding an account in the ledger. The space for the index is usually the first few pages of the ledger, but a special book may be used if there are a number of accounts. The pages for the index are special ruled and arranged to contain the name of the accounts in alphabetical order. All personal accounts should be written with the surname first and the initials following. The page should be written at the extreme right of the space reserved for the index and on the same line with the account; if the account is forwarded, the new page is written just to the left of the old page.

NOTE. In loose leaf ledgers there is no index; the sheets which contain the accounts are arranged in the ledger in alphabetical order, and are separated by division sheets, having tabs on the edge to facilitate locating the accounts.

§ 173. Rules for Taking a Trial Balance and for Detecting Errors when it does not Balance. The student, as well as the bookkeeper, often dreads the Trial Balance, the reason being that it is *this* which tests his accuracy. As a rule the bookkeeper or student who begins with the expectation of having trouble

in making the Trial Balance is sure not to be disappointed. It requires confidence in one's ability to succeed in anything, and the bookkeeper who has confidence in his ability to keep a set of books and take a Trial Balance will seldom have trouble in getting it to balance. It requires only a few moments' time to prove the correctness of each entry, posting, addition or subtraction. The trouble with the average student is that he does not appreciate the importance of this, and trusts too much to luck, hence, spends more time in finding his errors than he does in recording the transactions. The old adage, "Be sure you are right, and then go ahead," is very applicable to the work of the bookkeeper, and the student who can realize the importance of this will never have trouble with any of his work, and especially the Trial Balance.

Since many mistakes are made in taking the Trial Balance, a few rules are given for detecting errors. These rules should be observed and followed in the order given.

¶ 1. *Check the Posting* and audit the addition of each account which has been ruled. (§ 61.)

¶ 2. *After the Checking has been Completed*, glance over the books of original entry and the ledger, tracing any item that is not checked. If the check marks are all on the same vertical line in the books of original entry and the ledger, it will facilitate detecting errors.

¶ 3. *Do Not Accept One Addition* of the sales book and purchases book, as errors are often made in addition. If the instructions in ¶ 1 have been followed, the addition of each page will have been proved. Unless each entry in the journal, which has more than one debit or credit, is proved by footing with pencil, it is better to add each page in the journal and prove that the total debits equal the total credits.

¶ 4. *After all the Postings have been Checked*, the accounts in the ledger footed, and the balance of the personal accounts entered, begin at the first part of the ledger and check all of the work again.

¶ 5. *After the Accounts have been Transferred* to the Trial Balance, check the amounts with the ledger. This will avoid possible errors in entering the amounts from the ledger.

¶ 6. *Verify the Addition of Each Side* of the Trial Balance as it is added. If the credit side is added first, then verify the addition of this side before adding the debit side. It might be possible to make a corresponding error in adding each side, and thus have a Trial Balance which, on its face, is in balance, but in reality is out of balance. This means trouble with the next Trial Balance.

If the above instructions are followed in taking each Trial Balance, reference will seldom be made to the following information relative to detecting errors in it. If it does not balance, and all of the rules outlined above have been applied, note the following:

¶ 7. *Ascertain the Amount of the Error*, then look over the Trial Balance, ledger, and books of original entry for an amount equal to this, or one-half of it. If there is an amount equal to the error, check the posting of such an amount. If an amount is half of the error, and posted to the wrong side of an account, it will make the same difference as the amount of the error.

¶ 8. *If the Amount of the Error is Divisible by 9*, it is possible that the error is caused by transposed figures. Unless the error is divisible by 9, it could not be caused by a transposition. The following explains the effect of transposed figures on the Trial Balance.

Any number composed of two figures, the difference of which is the same as the result of dividing the error by 9, when transposed will give the amount of the error.

Example: Suppose the Trial Balance is out 45c; divide this by 9, and the result is 5. Any number composed of two figures, the difference of which is 5, will,

when transposed, cause an error of 45c; the difference between 0 and 5 is 5. 05 posted as 50 makes an error of 45c; the difference between 1 and 6 is 5; 16 posted as 61 makes an error of 45c, or 61 posted as 16 makes the same error. In the same way 27, 38, 49, 50, 61, 72, 83 or 94, when transposed will make an error of 45c; thus to find this error of 45c, you will trace the posting of any of these amounts and see that they have not been transposed. The same principle applies with any other error divisible by 9.

¶ 9. *Again Check the Additions and Subtractions* in the ledger. Inspect each account that has been ruled and prove that it is in balance above the ruling.

¶ 10. *Check the Amounts Entered* on the Trial Balance with the ledger accounts. Always use check marks to indicate checking, as there is little use in checking unless this is done.

¶ 11. *Verify the Total of the Sales Book*, purchases book, and debit and credit columns of the journal.

¶ 12. *Unless the Pass Book has been Written up* by the bank, and the balance verified with the cash balance and balance shown on the check stub, verify the cash balance. The fact that the cash proves is not absolute evidence that there is not an error. This is especially true, if the Trial Balance is off one cent, ten cents, one dollar, ten dollars, one hundred dollars, etc.

¶ 13. *Check all the Postings again* and indicate this by check marks on a different vertical line from that used with the previous checkings.

The above instructions are given in the order of their importance and should be followed as given, as the error may be discovered before it is necessary to use all of them.

§ 174. **Admitting a Partner.** When a partner is admitted to a going concern (one actively engaged in business), it is usually necessary to close the books and ascertain the present worth of the business. By special agreement with the incoming partner this might be omitted, but it is not the best policy, as the new partner should know the present condition of the business. The value of the fixed assets, accounts due the business, notes due the business, merchandise in stock, and other property must be agreed upon by the present owners and the partner who is to be admitted. The bookkeeper makes his entries and statements from these facts. He should have written instructions in regard to these entries signed by each partner or have the entries affected by the agreement approved by the signature of the partners.

QUESTIONS.

1. Name the six classes of accounts used in this set. (§ 127.)
2. Distinguish between the Partner's Capital account and his Personal account. (§§ 129 and 130.)
3. Describe briefly the two methods of keeping accounts with the property purchased for use in the business. (§§ 131, ¶ 1.)
4. Name the fixed asset accounts in this set. (§§ 132, 134 and 136.)
5. Name the valuation accounts in connection with these. (§§ 133, 135, 137.)
6. Name the accounts used in recording transactions affecting the purchase and sale of merchandise. (§§ 139-146.)
7. State the object of each. Why are these accounts necessary?
8. Why are they referred to as trading accounts?
9. Why is an account kept with Sales Rebates and Allowances? (§ 142.)
10. What is the purpose of merchandise discount? (§ 144.)
11. Name the two expense accounts in this set and state the object of each.
12. Why is it advisable to keep a record of the insurance policies? (§ 150, ¶ 1.)
13. What is the object of the Insurance account? (§ 151.)

14. Name the books of original entry used in this set. (§ 152.)
15. What is the most convenient record of a credit purchase? (§ 153.)
16. What is the most convenient record of a credit sale? (§ 154.)
17. State the purpose of the three columns on the debit and three columns on the credit side of the cash book. (§ 155.)
18. Name the auxiliary books used in this set. (§ 156.)
19. What is the object of the check book? (§ 157.)
20. What is the object of the notes receivable and notes payable books? (§§ 158 and 159.)
21. What is a business letter? (§ 160.)
22. What is a statement of account and when are they sent? (§ 161.)
23. What is the object of a credit bill? (§ 162.)
24. Why are bills of lading made in triplicate? (§ 163.)
25. Distinguish between a fast day message, a day letter, a night message, and a night letter. (§ 164, ¶¶ 1-4.)
26. Why and how is a check certified? (§ 165.)
27. Define the terms "3/10, n/30." (§ 166.)
28. If a payment of $150.00 is made to apply on account of a bill subject to 3% discount, with what amount is the account credited? (§ 167.)
29. What is the endorsement on a note held by John Smith and to be sent to the First National Bank at Chicago for collection? (§ 168.)
30. How is an error corrected? (§ 169.)
31. Define Exchange. (§ 170.)
32. Why are accounts in the ledger indexed? (§ 172.)
33. How would you proceed to locate an error in the Trial Balance? (§ 173.)

SPECIAL

In December, 1917, President Wilson, by authority of Congress, took over the railroads and many other transportation lines and placed them under the direction of William G. McAdoo to be operated by the Government according to terms outlined by Congress. In August, 1918, the President, by authority of Congress, took over the telegraph and telephone lines and placed them under the direction of the Post Office Department to be operated by the Government according to terms established by Congress. Under this new arrangement many changes were made in the mode of operating, but no radical changes have been made in the forms discussed in this text. When new forms are recommended, these will be illustrated in this text.

In July, 1918, the leading express companies in the United States, by permission of Congress, consolidated and will be operated as The American Railway Express Co., until the new arrangement is discontinued by the Government.

January 11, 1919, Walker D. Hines was appointed to succeed William G. McAdoo as director general of the United States Railway Administration.

August 1, 1919, the telegraph and telephone lines were returned to their owners by the government through order of President Wilson. On December 24, 1919, President Wilson authorized the return of the railroad and express companies to their owners at 12:01 a. m. March 1, 1920.

ACCRUALS AND DEFERRED ITEMS.

§ 175. **At the close of the fiscal period** there are certain items that do not appear on the ledger which must be considered in order to obtain a true statement of the financial condition of the business. There may be a number of items not shown on the books which are rightfully considered as assets or liabilities, and there may also be nominal accounts on the ledger, part or all of which do not represent expenses or profits. The items which must be considered at this time may be classified under the following heads: first, accrued assets not due; second, accrued liabilities not due; third, deferred charges to operations; fourth, deferred credits to income.

§ 176. **Accrued Assets.** Income may be earned in one fiscal period, but not due and payable until a subsequent period. Accurate accounting demands that each period be given credit for the income earned during that period whether it is collected then or later. To illustrate: On July 1st, $1,000.00 is loaned by the business for one year at 6% interest, payable at maturity. On December 31st one-half of this interest has been earned, that is, one-half of the service (use of the money) for which the interest is to be received has been performed. If the books are closed at this time (December 31st) one-half of the interest, or $30.00, should appear on the Balance Sheet, as an accrued asset, or it may be termed accrued income not due, if preferred. Amounts accrued but not yet due for rent, royalties or any service rendered to others should be treated as accrued assets and be shown on the Balance Sheet among the current assets.

§ 177. **Accrued Liabilities.** In the same manner that the records should show at the end of the fiscal period all the income earned during that period, they should also show a liability for all services which have been received during the period whether it is due or not. To illustrate: If the books are closed on July 1st and the taxes for the current year, amounting to $100.00, are not due until January 1st, one-half of this amount, or $50.00, should appear on the Balance Sheet as an accrued liability. Wages, royalties and interest are other items which are frequently accrued at the time the books are closed.

§ 178. **Deferred Charges to Operations.** These are expenses incurred in one fiscal period but chargeable in part to a subsequent period. To illustrate: If $100.00 is paid for office stationery, and when the books are closed only one-half of this has been used, the remaining half or $50.00 should appear on the Balance Sheet as a deferred charge to operations and be charged to the expenses of the following period. Unexpired insurance, interest paid in advance, rent paid in advance, and repairs on leased property are other illustrations of deferred charges.

§ 179. **Deferred Credits to Income.** These are credits to income which are not all earned in the fiscal period in which they originate and for which the subsequent period may have to perform some service before it obtains its share of the profit represented by the item. This service may involve the incurring of some expense during the subsequent period or it may involve the element of time only. To illustrate: if $1,000.00 is loaned on January 1st at 6%, interest payable in advance, only one-half of this interest or $30.00 should be treated as income if the books are closed on July 1st. The remaining $30.00 should be carried forward as a deferred credit to income and appear as such on the Balance Sheet. In the case of a newspaper where subscriptions and advertising are paid

for in advance, this would be an important item at the time of the close of a fiscal period. Professional fees received in advance should be treated in the same manner.

§ 180. Sundry Resource and Sundry Liability Inventories. Sometimes the items mentioned above are treated as inventories, the debit items being carried to an account known as Sundry Resource Inventories and the credit items, to an account known as Sundry Liability Inventories, and shown under these captions on the Balance Sheet. Although this plan may be followed, if desired, it does not show the real condition of the business since items of an entirely different nature are classed together in one account. Deferred charges to operations will ultimately be charged off as an expense or loss while accrued assets not due are current assets. When these two items are classed together under the head of Sundry Resource Inventories, their true nature is not shown. The same is true of the credit items when they are classed under the head of Sundry Liability Inventories. For this reason it is the better practice to keep separate accounts as discussed in §§ 175-179 and outlined in the following pages.

ACCRUED ASSETS ACCOUNT.

§ 181. The Object of this Account is to show the amount accrued but not yet due for services rendered by the business to others. This account is not opened until the end of the fiscal period and is closed immediately after the books are closed.

Debit Accrued Assets Account:

¶ 1. For the amount accrued but not yet due for services rendered by the business such as, accrued interest, and royalties.
A brief description of the asset may be written in the explanation column on the debit side, if desired.

Credit the Accrued Assets Account:

¶ 2. This account is not credited until it is closed, when it is credited as explained in ¶ 4.

¶ 3. *The Balance of this Account* before the ledger is closed shows the amount accrued but not yet due the business for services rendered. It is shown as a current asset on the Balance Sheet.

¶ 4. *To Close the Accrued Assets Account.* This account is closed by a journal entry after all the other accounts in the ledger have been closed. The amounts charged to it are transferred to the proper service accounts. The name of each service account affected is written in the explanation column on the credit side. The account is ruled with single and double red lines and footed with black ink.

Accrued Assets

19						19					
May	31	Int on Notes Rec.	J12	3 69		May	31	Interest	J12	3 69	
		Delivery Service	J12	62 50				Selling Expense	J12	62 50	
				66 19						66 19	

Illustration No. 77, Accrued Assets Account.

ACCRUED LIABILITIES ACCOUNT.

§ 182. **The Object of this Account** is to show the liabilities accrued, but not yet due, for services rendered to the business. These include interest owed on outstanding notes and accounts, taxes accrued but not paid, salaries and wages of employees accrued but not paid, and other unpaid obligations not shown by an account in the ledger. This account is not opened until the end of the fiscal period and is closed immediately after the books are closed.

Debit Accrued Liabilities Account:

¶ 1. This account is not debited until it is closed, when it is debited as explained in ¶ 4.

Credit Accrued Liabilities Account:

¶ 2. For the amount accrued but not yet due for services rendered to the business, such as, accrued interest, taxes, wages, rent, and insurance.

A description of the liabilities may be written in the explanation column on the credit side, if desired.

¶ 3. *The Balance of this Account* before the ledger is closed shows the amount accrued but not yet due for services rendered to the business. It is shown as a current liability on the Balance Sheet.

¶ 4. *To Close the Accrued Liabilities Account.* This account is closed by a journal entry after all the profit and loss accounts in the ledger have been closed. The amounts credited to it are transferred to the proper service accounts. The name of each operating account affected is written in the explanation column on the debit side. The account is ruled with single and double red lines and footed with black ink.

Accrued Liabilities

19						19					
May	31	Genl Admn. Exp.	J12	50		May	31	Rent	J12	50	
		Selling Expense	J12	103	34			Board of Trade, wages	J12	103	34
				153	34					153	34

Illustration No. 78, Accrued Liabilities Account.

DEFERRED CHARGES TO OPERATIONS ACCOUNT.

§ 183. **The Object of this Account** is to show the amount of expense incurred in one fiscal period which is chargeable to the following period. This account is not opened until the end of the fiscal period and is closed immediately after the books are closed.

Debit the Deferred Charges Account:

¶ 1. For the value of stationery, stamps, advertising matter, coal and other property of this nature on hand.

¶ 2. For the value of interest paid in advance, *unexpired insurance, unexpired taxes, and other services of this kind.

A brief description of the deferred charges may be written in the explanation column on the debit side, if desired.

Credit the Deferred Charges Account:

¶ 3. This account is not credited until it is closed, when it is credited as explained in ¶ 5.

¶ 4. *The Balance of this Account* before the ledger is closed shows the value of property or services paid for during this period which will not be consumed or used until the following period. It is shown as a special item following the fixed assets on the Balance Sheet.

¶ 5. *To Close the Deferred Charges to Operations Account.* This account is closed by a journal entry after all the profit and loss accounts in the ledger have been closed. The amounts charged to it are transferred to the proper service accounts. The name of each operating account affected is written in the explanation column on the credit side. The account is ruled with single and double red lines and footed with black ink.

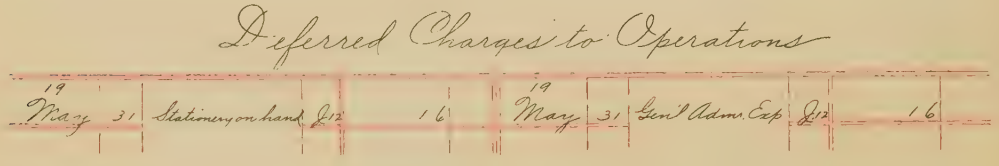


Illustration No. 79, Deferred Charges to Operations Account.

DEFERRED CREDITS TO INCOME ACCOUNT.

§ 184. **The Object of this Account** is to show the amount of income received during one fiscal period but applicable to the following period. This account is not opened until the end of the fiscal period and is closed immediately after the books are closed.

Debit Deferred Credits to Income Acct.:

¶ 1. This account is not debited until it is closed, when it is debited as explained in ¶ 4.

Credit Deferred Credits to Income Acct.:

¶ 2. For all income which is received during the present fiscal period but not earned during this period, such as, interest received in advance, tuition collected in advance, etc.

*NOTE. When the Insurance account is debited and credited as explained in § 151, ¶¶ 1, 2 and 3, it is not necessary to close the unexpired insurance into the Deferred Charges to Operations account, but this is permissible as explained in the note on page 125. When the Insurance account is left open and the balance shows the value of the unexpired insurance, this balance is shown on the Balance Sheet as a separate item under the caption "Deferred Charges to Operations," as in Illustration No. 83.

¶ 3. *The Balance of this Account* before the ledger is closed shows the amount of income received during the present period which will not be earned until the following period. It is shown as a special item following the current liabilities on the Balance Sheet.

¶ 4. *To Close the Deferred Credits to Income Account.* This account is closed by a journal entry after all the profit and loss accounts in the ledger have been closed. The amounts charged to it are transferred to the proper service accounts. The name of each operating account affected is written in the explanation column on the debit side.

NOTE. If desired, the accruals and deferred items discussed in §§ 176-179 may be debited and credited to Sundry Resource Inventories and Sundry Liability Inventories accounts instead of the separate accounts discussed in §§ 181-184. If this is done, these items must be separated and placed under the proper caption on the Balance Sheet, and not be shown as Sundry Resource Inventories and Sundry Liability Inventories for the reason given in § 180.

PROFIT AND LOSS ACCOUNT.

§ 185. The Object of this Account is to show the net profit or loss for the current fiscal period. In a trading business it may be represented by two sections, (a) the trading accounts, and (b) the profit and loss accounts, or it may be represented by only one section and the trading accounts shown in a separate account. If the Trading account is separate, the Profit and Loss account will show only the gross profit on sales, and the profit and loss accounts. It is opened at the close of the fiscal period, and after the ledger is closed remains in balance until the next closing time. Illustration No. 80 shows the Profit and Loss account with the two sections. Some accountants designate the account with the two sections as Trading, and Profit and Loss account. The debits and credits below refer to the account when the Trading account is made a section of the Profit and Loss account

Debit the Trading Section:

¶ 1. For the cost of salable merchandise on hand at the close of the preceding fiscal period, which is the value of merchandise as shown by the inventory at that time.

¶ 2. For the balance of the Purchases account, which is the invoice cost of merchandise purchased, less any that might have been returned.

¶ 3. For the balance of the Freight In account, which is the net amount paid for freight on merchandise purchased.

¶ 4. For the balance of the Sales Rebates and Allowances account, which is the rebates allowed customers.

¶ 5. For the balance of the Sales Discount account, which is the net amount of discount deducted by customers.

Credit the Trading Section:

¶ 6. For the cost of salable merchandise on hand at the close of the current fiscal period, which is the same as the value of the merchandise as shown by the present inventory.

¶ 7. For the balance of the Sales account, which is the net return from merchandise sold.

¶ 8. For the balance of the Purchases Discount account, which is the net amount deducted for prompt payment of obligations.

(*Concluded on page 148.*)

(*Continued from page 147.*)

¶ 9. *To Close the Trading Section.* The gross profit on sales which is the balance of the Trading section is entered on the debit side with red ink, the account ruled with single and double red lines, footed with black ink, and the gross profit on sales carried down on the line below the ruling with black ink under the same date. If the trading has resulted in a loss, the red ink entry will appear on the credit side and is carried down on the debit side.

Debit the Profit and Loss Section:

¶ 10. For the balance of the Trading section if it shows a loss.

¶ 11. For the balance of the Selling Expense account or accounts.

¶ 12. For the balance of the General Admin. Expense account.

¶ 13. For the balance of the other accounts showing a loss.

Credit the Profit and Loss Section:

¶ 14. For the balance of the Trading section if it shows a profit.

¶ 15. For the balance of the other accounts showing a profit.

¶ 16. *The Difference Between the Two Sides of this Account* shows the net profit or net loss for the fiscal period. It is the same as the net profit or net loss shown on the Profit and Loss statement.

¶ 17. *To Close the Profit and Loss Account.* When the journal entries to close the profit and loss accounts into the Profit and Loss account and the balance of the Profit and Loss account into the Partners' Capital accounts have been made and posted this account will balance and it is ruled with single and double red lines and footed with black ink.

Profit and Loss

19						19					
May	31	Inventory	J12	1121 74		May	31	Inventory	J12	3045 94	
		Purchases	J12	4005 97				Sales	J12	4409 96	
		Freight In	J12	124 1 86				Purchases Discount	J12	46 75	
		Sales Returns & Allow	J12	9 63						1502 65	
		Sales Discount	J12	116 27							
		Profit on Sales	✓	1007 18							
				7502 65						7502 65	
May	31	Selling Expense	J12	165 75		May	31	Profit on Sales	✓	1007 18	
		Doubtful Accts	J12	13 53							
		Gen'l Admr. Exp.	J12	453 45							
		Interest	J12	57 74							
		C.W. Kirkland Cap.	J12	158 36							
		A.D. Munson Cap.	J12	158 35							
				1007 18						1007 18	

Illustration No. 80, Profit and Loss Account, in connection with Illustration No. 84.

The name of each account is written in the explanation column for statistical purposes. This permits a comparison of the profits and losses for the current fiscal period with the preceding fiscal period without referring to the Profit and Loss statement.

TRADING ACCOUNT.

§ 186. **The Object of this Account** is to show the profit on sales for the current fiscal period. It shows the same facts as the trading accounts on the Profit and Loss statement, and may be shown as a separate account or as one section of the Profit and Loss account. When shown as a separate account, it is debited with the items described in § 185, ¶¶ 1–5, and credited with the items described in § 185, ¶¶ 6–8. The balance, which is the gross profit on sales, is closed into the Profit and Loss account by the journal entry made to close the trading accounts. The first part of Illustration No. 80 shows the Trading account. It is considered the better practice to close the trading accounts into the trading section of the Profit and Loss account.

C. W. KEELAND & CO.

TRIAL BALANCE, MAY 31, 19 ..

1	C. W. Keeland, Capital,			1500	00
1	C. W. Keeland, Personal,			40	00
2	A. D. Munson, Capital,			1500	00
2	A. D. Munson, Personal,			50	00
4	Purchases,	4115	09	109	12
4	Purchases Discount,			46	75
4	Inventory,	1121	74		
5	Sales,	26	91	4436	87
5	Sales Discount,	116	27		
5	Sales Rebates and Allowances,	9	63		
5	Freight In,	1241	86		
7	Interest,	86	47	25	04
7	Insurance,	55	69		
10	General Administrative Expense,	375	60		
11	Selling Expense,	79	91		
13	Office Equipment,	466	50		
13	Store Fixtures,	204	00		
14	Delivery Equipment,	450	00		
16	Notes Receivable,	645	65		
16	Notes Payable,			2081	39
✓	Cash	1836	66		
✓	Accounts Receivable,	1353	01		
✓	Accounts Payable,			2395	82
		12184	99	12184	99

Inventory of merchandise on hand, May 31, 19...., 3045.94

Accrued Assets:
- Interest accrued on notes receivable, 3.69
- Due from Borches & Co. for delivery service rendered, 62.50

Deferred Charges to Operations:
- Stamps and stationery on hand, 16.00

Insurance expired, 10.32

Accrued Liabilities:
- Rent of warehouse, 50.00
- Due Webb Livery Co. for board of horses for May, 70.00
- Unpaid pay roll,. 33.34

Depreciations:
- Office Equipment, 5%
- Store Fixtures, 5%
- Delivery Equipment, 10%

Reserve for Doubtful Accounts:
- 1% of debit balance of personal accounts.

Illustration No. 81, Trial Balance, Inventory, Accruals, Deferred Items, and Reserves at the Close of the Fiscal Period, May 31.

ADJUSTING JOURNAL ENTRIES AT THE CLOSE OF THE FISCAL PERIOD.

§ 187. At the close of the fiscal period prior to making the final Trial Balance, it is necessary to construct journal entries to take care of the following: expired insurance, depreciation on account of use of fixed assets, reserve set aside for doubtful accounts, accrued assets, accrued liabilities, deferred charges to operations and deferred credits to income. These entries are usually made in the order mentioned.

§ 188. Expired Insurance. The entry to transfer the expired insurance to the proper operating account or accounts will require one or more debits, and one credit, according to the class of property insured. Amounts paid for insurance on property purchased for use in the business and property purchased for sale are usually considered as one of the general expenses of the business; insurance on buildings, as a charge to building expense; insurance on delivery equipment as a charge to selling expense. The amount of expired insurance is determined from the policies or the insurance policy record (§ 150, ¶ 1). The illustration below shows the entry for the expired insurance, May 31, mentioned in Illustration No. 81.

31			
	Gen'l Admr. Expense	10 32	
	Insurance		10 32
	Insurance expired for the fiscal period.		

§ 189. Depreciation on Fixed Assets. The entry to charge the proper operating accounts with the depreciation on fixed assets will require one or more debits and one or more credits, according to the number of accounts which represent the fixed assets. Depreciation on office equipment is usually regarded as one of the general expenses of the business; depreciation on delivery equipment, as a selling expense; and depreciation on store fixtures, as a general expense or both general and selling expense, depending on the nature and use of the property. The illustration below shows the entry for the depreciations mentioned in connection with Illustration No. 81. The depreciation on store fixtures is considered a part of the general expense.

31			
	Gen'l Admr. Expense	33 53	
	Selling Expense	45	
	Res. for Dep. of Office Equipment		23 33
	Res. for Dep. of Store Fixtures		10 20
	Res. for Dep. of Delivery Equipment		45 00
	Five per cent depreciation on cost of office equipment, store fixtures and delivery equipment.		

§ 190. Reserve for Doubtful Accounts. The entry to set up a reserve for possible loss on account of doubtful accounts will require one debit and one credit. The amount of the reserve is determined by the management. As a rule, it is a certain per cent of the total credit sales or of the balance of the Accounts Receivable account. The illustration below shows the form of the entry for the reserve in Illustration No. 81.

31			
	Loss on Doubtful Accounts	13 53	
	Reserve for Doubtful Accounts		13 53
	One per cent of amount due from customers as a reserve for doubtful accounts.		

§ 191. Accrued Assets. The entry to credit the proper service or operating accounts with the value of the accrued assets will require one debit and one or more credits, according to the number of service or operating accounts

affected. The illustration below shows the entry for the accrued assets in Illustration No. 81.

31					
	Accrued Assets		66 19		
	Interest				3 69
	Selling Expense				62 50
	Interest accrued on notes receivable and amount due from Borches & Co. for delivery service.				

§ 192. Accrued Liabilities. The entry to charge the proper service or operating accounts with the accrued liabilities will require one or more debits, and one credit, according to the service or operating accounts affected. The illustration below shows the entry for the accrued liabilities in Illustration No. 81.

31					
	Gen'l Admr. Expense		50		
	Selling Expense		103 34		
	Accrued Liabilities				153 34
	Rent of warehouse for May, $50.00; due Webb' Livery Co. for board of horses, $70.00; unpaid wages, $33.34.				

§ 193. Deferred Charges to Operations. The entry to credit the proper operating account with the value of property on hand but not yet consumed will require one debit and one or more credits, according to the number of operating accounts affected. The illustration below shows the entry for the deferred charges to operations in Illustration No. 81.

31					
	Deferred Charges to Operations		16		
	Gen'l Admr. Expense				16
	Stamps, stationery, etc., on hand.				

C. W. KEELAND & CO.

TRIAL BALANCE, MAY 31, 19 ..

1	C. W. Keeland, Capital,			1500	00
1	C. W. Keeland, Personal,			40	00
2	A. D. Munson, Capital,			1500	00
2	A. D. Munson, Personal,			50	00
4	Purchases,	4115	09	109	12
4	Purchases Discount,			46	75
4	Inventory,	1121	74		
5	Sales,	26	91	4436	87
5	Sales Discount,	116	27		
5	Sales Rebates and Allowances,	9	63		
5	Freight In,	1241	86		
7	Interest,	86	47	28	73
7	Insurance,	45	37		
10	General Administrative Expense,	453	45		
11	Selling Expense,	165	75		
12	Loss on Doubtful Accounts,	13	53		
12	Reserve for Doubtful Accounts,			13	53
13	Office Equipment,	466	50		
13	Reserve for Depreciation of Office Equipment,			23	33
13	Store Fixtures,	204	00		
13	Reserve for Depreciation of Store Fixtures,			10	20
14	Delivery Equipment,	450	00		
14	Reserve for Depreciation of Delivery Equip.,			45	00
15	Accrued Assets,	66	19		
15	Deferred Charges to Operations,	16	00		
15	Accrued Liabilities,			153	34
16	Notes Receivable,	645	65		
16	Notes Payable,			2081	39
✓	Cash,	1836	66		
✓	Accounts Receivable,	1353	01		
✓	Accounts Payable,			2395	82
		12434	08	12434	08

Illustration No. 82, Trial Balance, May 31, after Entries for Accruals, Deferred Items and Reserves have been made and posted.

§ 194. **Deferred Credits to Income.** The entry to charge the proper service accounts with the amount that is to be earned in the succeeding fiscal period will require one or more debits, according to the number of service accounts affected, and one credit. The purpose of this entry is to take out of the profits for this period that part of the profit which must be earned in the succeeding period, as explained in § 179.

STATEMENT OF THE BUSINESS FOR A PARTNERSHIP.

§ 195. **The Statement of the Business** for a partnership does not differ from that of an individual or corporation except in the Capital accounts and the distribution of the profit. It consists of the Balance Sheet and the Profit and Loss statement, as explained in § 80. The following sections refer to Illustrations Nos. 83 and 84, and are based on the same facts concerning the statement of the business as explained in §§ 81 and 82. The illustrations may be used as a basis for making up a statement for a business conducted by either an individual, a partnership, or a corporation.

§ 196. **Balance Sheet.** This consists of the current assets, accrued assets, fixed assets, and deferred charges to operations; current liabilities, accrued liabilities, personal accounts of the partners, capital invested, and present capital. These are usually arranged in the order mentioned, but some accountants advise listing the fixed assets first.

¶ 1. *Assets.* The current assets consist of cash, notes receivable, accounts receivable less the reserve set aside for possible loss on account of doubtful accounts, inventory, and the accrued assets (an account due from Borches & Co. for delivery service, and interest accrued on Notes Receivable). The fixed assets are arranged in the order in which they appear on the ledger, the balance of the ledger account and the reserve for depreciation of each being shown separately. The deferred charges to operations (value of stamps, stationery, etc., on hand, and the value of the insurance as shown by the Insurance account) are shown last because they are assets that will be consumed by their use.

¶ 2. *Liabilities.* The liabilities are, notes payable, accounts payable, accrued liabilities (rent of warehouse, livery bill and unpaid pay roll) and amounts due the partners for salaries not withdrawn.

The difference between the total assets and total liabilities is the Present Capital or Partners' interests in the business. Each partner's share of the profit as shown by the Profit and Loss statement added to his investment equals his interest in the business, that is, his present investment (capital). See Illustration No. 83.

§ 197. **Profit and Loss Statement.** This shows, (a) the gross profit on sales, (b) the cost of operations, (c) other income, and (d) deductions from income. The facts in this statement are obtained from the accounts, Trial Balance and the inventory of merchandise on hand at the close of the current fiscal period.

¶ 1. *The Gross Profit on Sales* is the result of the following: (a), the gross returns from sales (credit side of the Sales account); (b), the returns by customers (debit side of the Sales account); (c), the rebates and allowances to customers (balance of the Rebates and Allowances account); (d), discount allowed customers on account of prompt payment (balance of the Sales Discount account); (e), the net returns from sales; (f), the inventory cost of merchandise on hand at the beginning of the period (balance of the Inventory account); (g), invoice cost of merchandise purchased during the period (debit side of the Purchases account); (h), freight on merchandise purchased (balance of the Freight In account); (i), returns, rebates and allowances (credit side of the Purchases account); (j), deductions

C. W. KEELAND & CO.

BALANCE SHEET, MAY 31, 19 ..

Current and Accrued Assets:					**Current and Accrued Liabilities:**			
Cash,		1836	66		Notes Payable,	2081	39	
Notes Receivable,		645	65		Accounts Payable,	2395	82	
Accounts Receivable,	1353.01				Accrued Rent of Warehouse,	50	00	
Deduct Res. for Doubtful Accts.	13.53	1339	48		Accrued Livery Bill,	70	00	
Merchandise Inventory, May 31, 19...,		3045	94		Accrued Wages,	33	34	
Accrued Interest on Notes,		3	69		Total Current and Accrued Liabilities			4630 55
Accrued charge for delivery service,		62	50		**Capital Accounts of Partners:**			
Total Current and Accrued Assets,				6933 92	C. W. Keeland, - Present Investment,	1658	35	
Fixed Assets:					Add C. W. Keeland Personal,	40	00	1698 36
Office Equipment,	466.50				A. D. Munson, - Present Investment,	1658	35	
Deduct Res. for Depreciation,	23.33	443	17		Add A. D. Munson, Personal	50	00	1708 35
Store Fixtures,	204.00							
Deduct Res. for Depreciation,	10.20	193	80					
Delivery Equipment,	450.00							
Deduct Res. for Depreciation,	45.00	405	00					
Total Fixed Assets,				1041 97				
Deferred Charges to Operations:								
Insurance Unexpired,		45	37					
Stamps and Stationery on hand		16	00					
Total Deferred Charges to Operations				61 37				
Total Assets and Deferred Charges,				8037 26	Total Liabilities and Partners' Capital			8037 26

Illustration No. 83, Balance Sheet for Fiscal Period Ending, May 31.

EXPLANATION. This Balance Sheet is prepared from the real, valuation, and capital accounts on the Trial Balance in Illustration No. 81, and inventory of merchandise on hand. A detailed explanation is given in § 196. If desired, the fixed assets may be listed first and followed by the current assets. The form of Balance Sheet in this illustration is the same as that used in the preceding set. This form is quite popular with practicing accountants and approved by authors of standard accounting literature. If desired, the arrangement may be similar to the Profit and Loss statement (Illustration No. 84) with the assets listed first.

from purchases on account of prompt payment (balance of the *Purchases Discount account); (k), net cost of merchandise purchased; (l), inventory value of merchandise on hand at the close of the fiscal period as shown by the inventory but not represented by an account on the books; (m), the net cost of merchandise sold; (n), the gross profit on sales which is the difference between the net returns from sales and the net cost of merchandise sold.

Reference to the formula at the right in connection with the above information and Illustration No. 84 will make clear the method of ascertaining the gross profit on sales.

$$A-(B+C+D)=E.$$
$$F+G+H-(I+J)=K.$$
$$K-L=M.$$
$$E-M=N.$$

Some authors refer to this part of the Profit and Loss statement as a "Trading Statement" and others as the "Trading Section." When shown as a part of the Profit and Loss statement, this should not be designated by a special name; when shown separately, it is a schedule and designated as "Schedule No. 1" or the number given it.

¶ 2. *Operating Expenses.* In the illustration, the operating cost of conducting the business is represented by two distinct items, Selling Expense and General Administrative Expense. The selling expenses are represented by two accounts, Selling Expense account and †Loss on Doubtful Accounts account. The total operating expenses is deducted from the gross profit on sales to ascertain the net profit from operations.

¶ 3. *Other Income.* The returns from interest, credit side of the Interest account, represent the only income in addition to that from the regular operations of the business. This added to the net profit from operations gives the gross income.

¶ 4. *Deductions from Income.* In the illustration, the only deduction from income is the cost of interest as shown by the debit side of the Interest account. This is deducted from the gross income to ascertain the net income or profit for the period.

The net profit for the period as shown by the Profit and Loss statement must be the same as the difference between the "Present Capital" and the investment as shown on the Balance Sheet. No facts in connection with either statement can be considered correct until these two amounts agree.

§ 198. Journal Entries to Close the Ledger. As explained in § 84, there are two methods of closing the ledger—one by the direct transfer or "red ink" method and the other by journal entry or entries. To close the ledger by journal entry requires at least two entries: (a) one to close the trading accounts, and (b) one to close the profit and loss accounts. In a business conducted by an individual or partnership the Capital accounts are usually closed with red ink.

§ 199. Entry to Close the Trading Accounts. After the Balance Sheet and Profit and Loss statement have been made and proved to be correct, the trading accounts are closed into the Profit and Loss account. This entry will require two or more debits and two or more credits, according to the number of trading accounts on the Profit and Loss statement. The illustration at the top of page 156 shows the entry required to close the trading accounts on the Profit and Loss statement in Illustration No. 84.

¶ 1. *To Close the Accounts with a Credit Balance.* The Inventory account is debited for the value of the salable merchandise on hand as shown by the inventory at the close of the fiscal period; the Sales account and Purchases Discount

(*Concluded on page 156.*)

*NOTE. If Purchases Discount is regarded as an income from Capital and not a deduction from the invoice cost of purchases, it will be shown with the other profits and income on the Profit and Loss statement and not as a deduction from the purchases cost.

†Loss on doubtful accounts may be regarded as a part of the general administrative expense, but the majority of accountants consider it as a selling expense item.

C. W. KEELAND & CO.

STATEMENT OF PROFIT AND LOSS FOR PERIOD APRIL 2, 19 .. TO MAY 31, 19 ..

Returns from Sales:					
Gross Sales				4436	87
Deduct Sales Returns		26	91		
" " Rebates and Allowances		9	63		
" " Discount		116	27	152	81
Net returns from merchandise sold				4284	06
Cost of Sales:					
Merchandise Inventory, April 2, 19 ..	1121.74				
Add Merchandise Purchases	4115.09				
" Freight on Purchases	1241.86	6478	69		
Deduct Purchases Returns & Allowances	109.12				
" " Discount	46.75	155	87		
Net cost of merchandise purchased		6322	82		
Deduct Merchandise Inventory, May 31, 19 ..		3046	94		
Net cost of merchandise sold				3276	88
Gross Profit on Sales				1007	18
Operating Expenses:					
Selling Expense	165.75				
Loss on Doubtful Accounts	13.53	179	28		
General Administrative Expense		453	45	632	73
Net Profit from Operations				374	45
Other Income:					
Interest on Notes Receivable				28	73
Gross Income				403	18
Deductions from Income:					
Interest on Notes Payable				86	47
Net Profit				316	71
C. W. Keeland, one-half net profit		158	36		
A. D. Munson, one-half net profit		158	35		
		316	71	316	71

PROOF

C. W. Keeland's Present Capital (Balance Sheet)		1658.36
A. D. Munson's Present Capital (Balance Sheet)		1658.35
C. W. Keeland's Investment	1500.00	
Add one-half net profit	158.36	
A. D. Munson's Investment	1500.00	
Add one-half net profit	158.35	
	3316.71	3316.71

Illustration No. 84, Profit and Loss Statement for Fiscal Period Ending May 31.

EXPLANATION. This statement is prepared from the nominal accounts given in the Trial Balance for May 31, Illustration No. 82, and inventory of merchandise on hand. (§ 197, ¶¶ 1–4.)

(*Continued from page 154.*)

account are debited for the difference between the two sides of each; the Profit and Loss account is credited for the total. This closes all the accounts that have a credit balance.

¶ 2. *To Close the Accounts with a Debit Balance.* The Profit and Loss account is debited with the total of the balances of the Inventory (salable merchandise on hand at the beginning of the fiscal period), Purchases, Freight In, Sales Discount, and Sales Rebates and Allowances accounts; the Inventory, Purchases, Freight In, Sales Discount, and Sales Rebates and Allowances accounts are credited because each shows a debit balance.

	31				
	Inventory, May 31	3045	94		
	Sales	4409	96		
	Purchases Discount	46	75		
	Profit and Loss			7502	65
	Profit and Loss	6495	47		
	Inventory, April 1			1121	74
	Purchases*			4005	97
	Freight In			1241	86
	Sales Rebates and Allowances			9	63
	Sales Discount			116	27
	To close the trading accounts into the Profit and Loss account.				

¶ 3. *To Post the Entries.* When this entry is posted all of the trading accounts that appear on the Profit and Loss statement will balance and are ruled with single and double red lines and footed with black ink, except the Inventory, which has only one amount on each side and is ruled with double red lines only. See Illustrations Nos. 54, 55, 56, 57, 58, 59 and 60. The Profit and Loss account is not credited with the single amount that appears opposite "Profit and Loss," nor debited with the single amount that appears opposite "Profit and Loss," but with each amount in the credit and debit entry.

It is customary to rule the Profit and Loss account at this point and carry the gross profit on sales down on the credit side under the same date, as explained in § 185, ¶ 9, and in Illustration No. 80.

§ 200. Entry to Close the Profit and Loss Accounts. This entry will have one or more debits and one or more credits, according to the number of profit and loss accounts on the Profit and Loss statement. It may also include the closing of the Profit and Loss account. The illustration at the top of page 157 shows the entry required to close the profit and loss accounts on the Profit and Loss statement in Illustration No. 84.

¶ 1. *To Close the Accounts with a Credit Balance.* At this time there are no accounts that show a credit balance; Interest account is closed with its balance as explained in ¶ 2. If there had been any profit accounts these would have been debited, and Profit and Loss credited with the total.

¶ 2. *To Close the Accounts with a Debit Balance.* The Profit and Loss account is debited with the balances of the Selling Expense, Loss on Doubtful Accounts, General Administrative Expense, and Interest accounts; each of these

*NOTE. Some accountants advise closing the accounts affecting the purchases cost of merchandise into the Purchases account, and the balance of this account into the Trading section of the Profit and Loss account. When this plan is followed, the Purchases account is debited for the balance of the Freight In account and credited with the balance of the Purchases Discount account if such discounts are considered as a deduction from purchases cost. This entry is made before the entry to close the trading accounts and separate from it. The entries to close the other accounts and to close the Purchases account after this entry has been posted are the same as described above.

accounts is credited with its balance. The debit side of the Interest account is shown as a deduction from income, and the credit side as an additional income on the Profit and Loss statement, but the account is closed with its balance.

31				
	Profit and Loss		690 47	
	Selling Expense			165 75
	Loss on Doubtful Accounts			13 53
	Gen'l Admr. Expense			453 45
	Interest			57 74
	To close the profit and loss accounts into the Profit and Loss account.			

¶ 3. *Entry to Close the Profit and Loss Account.* A separate entry is made to close the balance of the Profit and Loss account into the partners' Capital accounts. If desired, this may be combined with the entry to close the profit and loss accounts. The illustration below shows the form of entry to close the Profit and Loss account resulting from the Profit and Loss statement in Illustration No. 84, into the partners' Capital accounts. If any part of the profit is to be withdrawn, this would be credited to the partners' Personal accounts. When this entry is posted the Profit and Loss account will balance and it is ruled with single and double red lines and footed with black ink.

31				
	Profit and Loss		316 71	
	C. W. Keeland Capital			158 36
	A. D. Munson Capital			158 35
	To close the Profit and Loss account into the Capital accounts.			

¶ 4. *To Post the Entries.* When the entries described in ¶¶ 1, 2, and 3 have been posted, all the accounts on the Profit and Loss statement, including the Profit and Loss account will balance, and the net profit or net loss will be transferred to the partners' Capital accounts. All accounts are ruled with single and double red lines and footed with black ink.

§ **201. To Close the Capital Accounts.** The entry to close the profit and loss accounts includes the distribution of the profit, hence, when posted, each partner's Capital account will have been credited with his share of the net profit and will show his present interest in the business. This is entered on the debit side with red ink under the date of closing as "Present Capital." When this entry has been made, the account will balance and is ruled with single and double red lines and footed with black ink. The Present Capital is carried down on the opposite side under the date of the first business day following the closing, "Present Capital" being written in the explanation column. See Illustration No. 50.

§ **202. Entries to Close the Accrued Assets, Accrued Liabilities and Deferred Charges to Operations Accounts.** After the ledger has been closed, it is necessary to transfer the items posted to these accounts to the operating or service accounts which they affect. This requires three separate journal entries, one to close each account.

¶ 1. *To Close the Accrued Assets Accounts.* This entry requires one or more debits, and one credit, according to the number of accounts affected. The illustration at the top of page 158 shows the form of entry required to close the Accrued Assets account resulting from the entry under § 191. At this time there are two accounts affected—Interest and Selling Expense. The Interest and Sell-

ing Expense accounts are debited and the Accrued Assets account credited. When posted, the latter will balance and is ruled with single and double red lines and footed with black ink.

	31				
	Interest			3 69	
	Selling Expense			62 50	
	Accrued Assets				66 19
	To close the Accrued Assets account.				

¶ 2. *To Close the Accrued Liabilities Account.* This entry requires one debit and one or more credits, according to the number of accounts affected. The illustration below shows the form of entry required to close the Accrued Liabilities account resulting from the entry under § 192. At this time there are two accounts affected by the credit entry, General Administrative Expense for the amount due for rent, Selling Expense for the amount due for board of horses and the unpaid pay roll. Accrued Liabilities account is debited, and the two operating accounts credited. When this entry is posted, the Accrued Liabilities account will balance and is ruled with single and double red lines and footed with black ink.

	31				
	Accrued Liabilities			153 34	
	Gen'l Admr. Expense				50
	Selling Expense				103 34
	To close the Accrued Liabilities account.				

¶ 3. *To Close the Deferred Charges to Operations Account.* This entry requires one or more debits, and one credit, according to the number of accounts affected. The illustration at the top of page 159 shows the form of entry required to close the Deferred Charges to Operations account resulting from the entry under § 193.

(*Concluded on page 159.*)

C. W. KEELAND & CO.

PROOF SHEET, MAY 31, 19 ..

1	C. W. Keeland, Capital,			1658	36
1	C. W. Keeland, Personal,			40	00
2	A. D. Munson, Capital,			1658	35
2	A. D. Munson, Personal,			50	00
4	Inventory,	3045	94		
7	Interest,	3	69		
7	Insurance,	45	37		
10	General Administrative Expense,	16	00	50	00
11	Selling Expense,	62	50	103	34
12	Reserve for Doubtful Accounts,			13	53
13	Office Equipment,	466	50		
13	Reserve for Depreciation of Office Equipment,			23	33
13	Store Fixtures,	204	00		
13	Reserve for Depreciation of Store Fixtures,			10	20
14	Delivery Equipment,	450	00		
14	Reserve for Depreciation of Delivery Equip.,			45	00
16	Notes Receivable,	645	65		
16	Notes Payable,			2081	39
✓	Cash,	1836	66		
✓	Accounts Receivable,	1353	01		
✓	Accounts Payable,			2395	82
		8129	32	8129	32

Illustration No. 85, Proof Sheet, May 31.

EXPLANATION. This shows the accounts in the Trial Balance, Illustration No. 82, after the entries closing the profit and loss accounts have been posted. It shows the same accounts as the Balance Sheet; asset accounts are debited; valuation, liability, and capital accounts are credited.

(§ 202, ¶ 3—*Concluded.*)

The value of the unexpired insurance is shown by the balance of the Insurance account, hence no entry is necessary for this. Only one account, General Administrative Expense, is affected by the credit entry, which is for the value of stamps and stationery on hand. The General Administrative Expense account is debited and Deferred Charges to Operations account credited. When this entry is posted, the Deferred Charges account will balance and is ruled with double lines, as there is only one entry on each side.

31			
Gen'l Admr. Expense		16	
Deferred Charges to Operations			16
To close the Deferred Charges to Operations account.			

NOTE. In posting to the Accrued Assets, Accrued Liabilities and Deferred Charges to Operations accounts, the name of the account into which each amount is closed should be written in the explanation column as explained in §§ 181-183.

Exercise No. 68, Trial Balance, Brown & Simpson, July 31, 19..

E. R. Brown, Capital, Dr. $1,000.00, Cr. $3,500.00; C. W. Simpson, Capital, Dr. $1,000.00, Cr. $3,500.00; E. R. Brown, Personal, Dr. $387.65; C. W. Simpson, Personal, Dr. $639.87; Inventory, Dr. $3,621.92; Freight In, Dr. $1,129.63, Cr. $26.40; Purchases, Dr. $6,894.43, Cr. $391.84; Sales, Dr. $245.28, Cr. $10,862.13; Sales Rebates and Allowances, Dr. $120.04; Sales Discount, Dr. $624.98, Cr. $35.50; Purchases Discount, Dr. $20.00, Cr. $391.64; General Administrative Expense, Dr. $752.08; Selling Expense, Dr. $372.45; Notes Receivable, Dr. $1,010.24; Interest, Dr. $17.95, Cr. $67.51; Office Equipment, Dr. $850.50; Reserve for Depreciation of Office Equipment, Cr. $19.42; Notes Payable, Cr. $2,500.00; Delivery Equipment, Dr. $350.00; Reserve for Depreciation of Delivery Equipment, Cr. $57.50; Personal Accounts Receivable, Dr. $4,168.43; Personal Accounts Payable, Cr. $3,795.16; Insurance, Dr. $150.00; Cash, Dr. $1,791.65.

Inventory: Salable merchandise on hand, $3,618.92.

Accrued Assets: Interest on notes receivable, $12.50.

Accrued Liabilities: Salaries of clerks in the selling department, $50.00; salaries of office employees, $25.00; rent unpaid, $75.00.

Deferred Charges to Operations: Office supplies on hand, $29.75; catalogs on hand, $25.00.

Expired insurance on office equipment and merchandise, $25.00.

Depreciations: Office Equipment, 5%; Delivery Equipment, 5%.

Reserve for Doubtful Accounts, 1% of balance due from customers.

Proceed as follows:

(a) Make the journal entries for the expired insurance (§ 188), depreciation on fixed assets (§ 189), reserve for doubtful accounts (§ 190), accrued assets (§ 191), accrued liabilities (§ 192), deferred charges to operations (§ 193), and post them; (b) take a Trial Balance showing the accounts with these changes; (c) from this Trial Balance prepare a Balance Sheet (§ 196), and Profit and Loss statement (§ 197); (d) make the journal entry necessary to close the accounts on the Profit and Loss statement and the Profit and Loss account; profit divided equally (§§ 199 and 200); (e) close the partners' Capital accounts; (f) make the entry necessary to transfer the accrued assets, accrued liabilities and deferred charges to operations, to the proper service accounts (§ 202); (g) take a Proof Sheet.

Exercise No. 69, Trial Balance, Day, Moxley, and Hatcher, Dec. 31, 19..

Chas. Day, Capital, Dr. $650.00, Cr. $6,000.00; Wm. Moxley, Capital, Dr. $400.00, Cr. $4,000.00; H. D. Hatcher, Capital, Cr. $4,000.00; Chas. Day, Personal,

(*Concluded on page 160.*)

(*Exercise No. 69—Concluded.*)

Dr. $44.19; Wm. Moxley, Personal, Cr. $115.19; H. D. Hatcher, Personal, Dr. $25.91; Inventory, Dr. $4,862.24; Purchases, Dr. $10,864.48, Cr. $374.96; Sales Discount, Dr. $629.50, Cr. $10.00; Purchases Discount, Dr. $20.10, Cr. $586.46; Freight In, Dr. $1,051.67, Cr. $13.91; Sales, Dr. $236.52, Cr. $15,616.68; Sales Rebates and Allowances, Dr. $133.22; Cash, Dr. $4,680.52; Selling Expense, Dr. $1,036.82; Insurance, Dr. $300.00; General Administrative Expense, Dr. $1,450.79; Interest, Dr. $26.95, Cr. $56.98; Notes Receivable, Dr. $4,452.65; Notes Payable, Cr. $1,650.00; Office Equipment, Dr. $865.96; Reserve for Depreciation of Office Equipment, Cr. $85.55; Accounts Receivable, Dr. $3,586.42; Accounts Payable, Cr. $4,808.21; Delivery Equipment, Dr. $2,000.00.

Inventory: salable merchandise on hand, $3,621.52. Accrued Assets: interest on notes receivable, $14.75. Accrued Liabilities: salaries of employees in selling department, $94.80; salaries of office employees, $100.00; unpaid rent, $100.00. Deferred Charges to Operations: office supplies on hand, $40.00; catalogs on hand, $54.00. Expired insurance on office equipment and merchandise, $100.00; expired insurance on delivery equipment, $50.00. Depreciations: Office Equipment, 5%; Delivery Equipment, 5%. Reserve for Doubtful Accounts, 2% of balance due from customers.

(a) Make the journal entries for the expired insurance (§ 188), depreciation on fixed assets (§ 189), reserve for doubtful accounts (§ 190), accrued assets (§ 191), accrued liabilities (§ 192), deferred charges to operations (§ 193), and post them; (b) take a Trial Balance showing the accounts with these changes; (c) from this Trial Balance prepare a Balance Sheet (§ 196), and Profit and Loss statement (§ 197); (d) make the journal entry necessary to close the accounts on the Profit and Loss statement and the Profit and Loss account, profit or loss shared equally by the partners (§§ 199 and 200); (e) close the partners' Capital accounts; (f) make the entry necessary to transfer the accrued assets, accrued liabilities and deferred charges to operations, to the proper service or operating accounts (§ 202).

QUESTIONS.

1. Define accrued assets and give an example. (§ 176.)
2. Define accrued liabilities and give an example. (§ 177.)
3. Define deferred charges to operation and give an example. (§ 178.)
4. Define deferred credits to income and give an example. (§ 179.)
5. State the object of the Accrued Assets account. (§ 181.) How is it shown on the Balance Sheet? (§ 181, ¶ 3.)
6. State the object of the Accrued Liabilities account. (§ 182.) How is it shown on the Balance Sheet? (§ 182, ¶ 3.)
7. State the object of the Deferred Charges to Operations account. (§ 183.) How is it shown on the Balance Sheet? (§ 183, ¶ 4.)
8. State the object of the Deferred Credits to Income account. (§ 184.)
9. What is the object of the Trading account? (§ 186.)
10. Name the two methods of showing it in the ledger.
11. Why is the ledger closed? (§ 84.)
12. Name the two methods of closing the ledger.
13. Name the adjusting entries at the close of the fiscal period. (§§188-194.)
14. Name the two statements made at the close of the fiscal period. (§ 195.)
15. State the object of each. (§§ 196 and 197.)
16. What two methods are used in closing the ledger? (§ 198.)
17. Describe the entry to close the trading accounts. (§ 199.)
18. Describe the entry to close the profit and loss accounts. (§ 200.)
19. Describe the entry to transfer the profit to the Capital accounts. (§ 201.)
20. Describe the entry to close the Accrued Assets, Accrued Liabilities, and Deferred Charges to Operations accounts. (§ 202.)

PARTNERSHIP SET (Continued).

JUNE.

§ 203. **Introduction.** The work in this month is a continuation of the practice work of April and May and introduces the following: accounts with Consignments Outward, Consignments Inward, Commission, Sales Ledger (Accounts Receivable), Reserve for Doubtful Accounts, and Traveling Expense; Shipping Invoice; Account Sales; Shipments and Consignments; Special Column Journal; Special Column Cash Book; and C. O. D. Shipments.

CONSIGNMENTS.

§ 204. **Merchandise sent by the owner** to another to be sold by him at the owner's expense and risk is known as a consignment. The owner is known as the consignor and the party to whom the merchandise is sent, the consignee.

Formerly the selling of merchandise on consignment was very popular because it allowed the owner to retain title until sold, and also permitted him to receive the benefit of profit derived from an increase in market price. It is not so extensive now because the modern business man prefers to buy the goods he sells. An exception to this is merchandise of a perishable nature or goods, the cost of which will not justify the investment. An illustration of merchandise of a perishable nature is vegetables, poultry, eggs, live stock, etc.; an illustration of the other class is cotton, grain, etc.

CONSIGNMENT OUTWARD ACCOUNT.

§ 205. **The Object of this Account** is to show the amount of expense incurred on merchandise shipped to be sold on consignment. This includes only those expenses which are paid by the consignor. The account is designated by the name of the person or firm to whom the consignment is made, the words "Consignment Outward" and the number, No. 1, indicating the first consignment. Additional consignments to the same party should be numbered in consecutive order.

When merchandise is shipped on consignment, the consignor renders the consignee an invoice of shipment (§ 208), setting forth the articles shipped, the cost, and all special conditions in connection with the consignment. No entry is made for the value of the merchandise on the general books because there is no change in ownership. However, a memorandum entry should be made either in the journal or a special book, setting forth the same facts as shown by the shipping invoice. If a part payment is made on account of the sales, the amount is credited to the Consignment Outward account. When the consignee renders an account of the sales (§ 209) of the merchandise sent him on consignment, the Consignment Outward account is credited with the net proceeds, or the net proceeds less the advances. No personal account is necessary with the consignee unless a remittance for balance due does not accompany the account sales.

If the owner wishes to know the profit on each consignment of merchandise, he can ascertain this by deducting the gross cost (cost shown by the memorandum entry plus the charges, balance of the Consignment Outward account) from the net proceeds as shown by the account sales (§ 206, ¶ 5).

Debit the Consignment Outward Acct.:

¶ 1. For amounts paid by the consignor for freight, drayage and other charges incurred in connection with the shipment to the consignee or its return to the consignor if not sold.

Credit the Consignment Outward Acct.:

¶ 2. For cash, notes, or acceptances, on account of the consignment.

¶ 3. For the net proceeds shown on the account sales rendered by the consignee.

Brown Bros Consignment Outward No 1

19						19					
Sept	10	Freight	C3	36 50		Sept	15		C4	200	
	30	Consign. Sales	J3	919 12			26	Account Sales	C6	755 62	
				955 62						955 62	

Illustration No. 86, Consignment Outward Account for Exercise No. 70.

¶ 4. *The Difference Between the Two Sides* of this Account shows the net returns from the consignment. It is shown on the Profit and Loss statement as one of the returns from the sale of merchandise, under the caption "Consignment Sales." If any part or all of the merchandise remains unsold, the value is shown on the Balance Sheet as an inventory of merchandise, but separate from the merchandise in stock.

¶ 5. *To Close the Consignment Outward Account.* The balance of this account may be closed into the Consignment Sales account at the time the account sales is received, or at the close of the fiscal period; the balance of the Consignment Sales account is closed by the journal entry made to close the accounts on the Profit and Loss statement.

Exercises in Consignment Outward Accounts. Prepare on ledger paper a Consignment Outward account for each of these three exercises. Exercise No. 70 is the same as Illustration No. 86. References are to § 205.

Exercise No. 70. Brown Bros., Consignment Outward, No. 1.

Sept. 9. Shipped Brown Bros., Chicago, 500 bushels potatoes, cost $1.65 per bushel, to be sold on consignment.
10. Paid $36.50, freight on the potatoes shipped Brown Bros.
15. Received check for $200.00 from Brown Bros., on account of sales of the potatoes shipped them on consignment.
26. Received from Brown Bros. an account of the sales of the potatoes, with check for $755.62, net proceeds less advance payment.
30. At the close of the fiscal period, the balance is closed into the Consignment Sales account.

Exercise No. 71. Wolf & Lott, Consignment Outward, No. 3.

Oct. 1. Shipped Wolf & Lott, New York, 200 bales of hay, 20,000 lbs., cost $15.00 per ton, to be sold on our account and risk.
3. Paid $38.75, freight on hay shipped to Wolf & Lott.
31. Received an account of sales of the hay shipped Wolf & Lott on consignment, with check for the net proceeds, $261.75.

Exercise No. 72. Central Commission Co., Consignment Outward, No. 6.

May 26. Shipped the Central Commission Co., New York, 15,000 quarts strawberries, cost 13c per qt., to be sold on consignment.
May 27. Paid the Harold Transfer Co. $86.75 for drayage and loading the strawberries on the car.
June 1. Paid $1.25 for telegram on account of shipment.
10. They accepted a five-day draft for $1,000.00, on account of shipment.
15. Received a check for $400.00 on account of shipment.
23. They sent us a note for $118.75, which was transferred to them in payment for berries sold from the shipment.
26. Received check for $246.50, balance due as per account sales rendered.
Show the profit or loss resulting from this consignment.

CONSIGNMENT INWARD ACCOUNT.

§ 206. **The Object of this Account** is to show the amount due the consignee or due from him. It is the account that the consignee keeps with the goods received from the consignor to be sold on consignment. An account is kept with each person or firm from whom consignments are received. The account is designated by the name of the person or firm from whom the consignment is received, the words "Consignment Inward" and the number, "No. 1" indicating the first consignment. Additional consignments inward made by the same party would be numbered in consecutive order.

No entry is made on the general books at the time the merchandise to be sold on consignment is received, but a memorandum entry should be made in the journal or a special consignment book if there are a number of consignments. Merchandise on hand at the close of the fiscal period belonging to a consignment does not affect the Balance Sheet prepared from the books of the consignee because it does not belong to him. The only interest he has in the consignment is the freight and other charges which he may have paid.

Debit the Consignment Inward Acct.:

¶ 1. For amounts paid for freight, drayage, or any services in handling the merchandise belonging to the consignment.
¶ 2. For amounts paid, notes given, or drafts accepted, as part payment of the goods sold.
¶ 3. For the value of goods returned by customers or rebates allowed on account of damaged goods.
¶ 4. For the charges made at the time the account sales is rendered, which are usually for drayage, storage, insurance and commission.
¶ 5. For the net proceeds, which is ¶ 6 minus the total of ¶¶ 1, 3 and 4.

Credit the Consignment Inward Acct.:

¶ 6. For cash or credit sales of merchandise belonging to the consignment.

¶ 7. *The Balance of this Account* shows the amount due from or owed to the consignee. The amounts that appear on the debit side are charges, and the amounts on the credit side, sales. If the net charges exceed the sales, the consignor owes the consignee this amount. If the net sales exceed the charges, the consignee owes the consignor. The balance is shown either as a current asset or a current liability on the Balance Sheet.

Merchandise on hand belonging to the consignment would not be shown on the Balance Sheet because it does not belong to the consignee. It is the property of the consignor and subject to his orders.

¶ 8. *To Close the Consignment Inward Account.* This account is not closed until the account sales is rendered and the balance due is paid. After the journal entry for the charges has been posted, the two sides are equal and the account is ruled with single and double red lines and footed with black ink. If there are any goods on hand, the value of these is shown on the account sales for the information of the consignor and a new memorandum entry made on the books of the consignee. Illustration No. 87 shows the form of the Consignment Inward account.

Rosenbeck & Williams, Consignment Inward No. 1

'19					'19				
June	12	Extra labor	J13	2 50	June	16	20119 #	@8	140 83
	16	Freight	C9	59 47		21	28365 #	@5	1 98 56 3 39 39
	26	Drayage	J15	9 80					
		Storage	J15	4 90					
		Insurance	J15	3 39					
		Commission	J15	16 97					
		Net Proceeds	C11	242 36 3 39 39					
				339 39					339 39

Illustration No. 87, Consignment Inward Account for Exercise No. 73.

Exercises in Consignment Inward Accounts. Prepare on ledger paper a Consignment Inward account for each of these three exercises. Exercise No. 73 is the same as Illustration No. 87. References are to § 206.

Exercise No. 73. Rosenbeck & Williams, Consignment Inward, No. 1.

June 12. Accepted 500 bales, 49,561 lbs. of hay from Rosenbeck & Williams, Springfield, to be sold on consignment; paid $2.50 for unloading (¶ 1).
16. Sold for cash, 200 bales, 20,119 lbs. hay at $14.00 per ton (¶ 6).
16. Gave the C. N. O. & T. P. Ry. Co. a check for $59.47; freight charges on consignment (¶ 1).
21. Sold for cash, 290 bales, 28,365 lbs. hay at $14.00 (¶ 6).
25. Rendered an account sales for 490 bales, 48,484 lbs.; 10 bales, 1,077 lbs., were too badly damaged to be sold. Our charges were 2c per bale drayage, 1c per bale storage, 1% of the sales for insurance, and 5% of the sales for commission (¶ 4). Enclosed check for the net proceeds (¶ 5).

Exercise No. 74. Davis & Bros., Consignment Inward, No. 6.

Nov. 5. Received from Davis & Bros. of Cleveland, 5,000 baskets of grapes, to be sold on consignment.
7. Gave the C. C. C. & St. L. Ry. Co. a check for $107.65 to pay freight on the grapes (¶ 1).
8. Sold for cash, 1,000 baskets grapes at 14c (¶ 6).
9. Paid 80c for telegram on account of consignment (¶ 1).
12. Sold on account, 2,000 baskets grapes at 14c.
13. Accepted 10-day draft for $150.00 (¶ 2).
14. Sold for cash, 500 baskets grapes at 14c.
16. Sold for cash, 1,500 baskets grapes at 13½c.
20. Sent them an account sales; charges ½c per basket for storage, ½c per basket for drayage, $10.00 for insurance, and 4% of the sales for our commission (¶ 4); sent them check for the net proceeds less advances.

Exercise No. 75. Florida Commission Co., Consignment Inward, No. 9.

Make journal entries for the following transactions and post the entries that affect the Consignment Inward account.

June 5. Received from the Florida Commission Co., Jacksonville, 1,000 watermelons to be sold on their account and risk.
6. Paid for unloading and transferring to the warehouse, $12.50.
7. Sold for cash, 200 melons at 28c.
9. Sold T. E. Burns Co., on account, 150 melons at 28c.
12. Paid 90c for telegram on account of consignment.
14. Collected 40c, retail price, for a melon which the driver ate.
15. Sold for cash, 300 melons at 27c.
17. Allowed T. E. Burns Co. credit for $1.40 for 5 melons which were in a bad condition when received by him (¶ 3).
18. Sent the consignor a check for $50.00 on account of consignment.
22. Sold W. R. Carter & Son, 100 melons at 26c.
27. Accepted ten-day draft for $75.00 on account of consignment.
28. Sold for cash, 125 melons at 27c.

July 3. Sold the remainder of the melons for cash, $31.16.
6. Rendered an account sales and sent check for the net proceeds less advances. Our charges were 1c per melon for drayage; 1c per melon for storage; 1% of the net sales for insurance; 4% of the net sales for commission.

COMMISSION ACCOUNT.

§ 207. **The Object of this Account,** as used in this set, is to show the net amount received as commission for selling merchandise on consignment.

Debit Commission Account:

¶ 1. For rebates that reduce the income as shown by the credit side.

Credit Commission Account:

¶ 2. For amounts received from the consignor as commission, which is usually a certain per cent of the net sales.

¶ 3. *The Difference Between the Two Sides of this Account* shows the net amount of commission received. It is shown as a special income on the Profit and Loss statement.

¶ 4. *To Close the Commission Account.* This account is closed into the Profit

and Loss account by the journal entry, which closes the accounts affecting the Profit and Loss statement. After this journal entry has been posted, the account will balance and it is ruled with single and double red lines and footed with black ink.

Commission

'19						'19				
June	30	Profit & Loss	J16	57	38	June	25	J15	16	97
							30	J16	40	41
				57	38				57	38

Illustration No. 88, Commission Account.

§ 208. Invoice of Shipment. This is a business form used by the consignor on which to list the goods shipped on consignment, and is similar to a bill or invoice. It is customary to show the cost price of merchandise on the invoice of shipment that the consignee may know the cost and sell at such a price as will give the owner a profit. Illustration No. 89 shows the usual form.

Invoice of Shipment.

June 12, 19—

Invoice of Flour

Shipped via _____ *Consigned to* Byron Brothers,

216 Main St, Centerville, *to be sold for account and risk of*

C. W. KEELAND & CO. *Consignors.*

50	bbls	Superior Flour @ $ 3 60	180	00		
50	"	Fancy " 3 30	165	00		
50	"	Peerless " 2 00	150	00	495	00

Illustration No. 89, Invoice of Shipment.

§ 209. Account Sales. This is a business form on which the consignee makes his report to the consignor. It is arranged to show the quantity of merchandise received, the articles sold and the various charges. From this the owner may ascertain the quantity sold, the charges for selling, and the merchandise on hand belonging to the consignment. The net proceeds is the amount due the consignor (owner) for the sale of his merchandise; it is the gross sales less the charges (§ 206, ¶¶ 1, 3 and 4). The consignee may pay this or place it to the credit of the consignor's (owner) account. Illustration No. 90 shows a popular form of an account sales.

Account Sales

June 25 19

M Rosenbeck & Williams *Address* Springfield

Below please find account sales of 500 bales, 49561 lbs. Hay

Sold by C. W. KEELAND & CO.

Received June 11 19 *and sold for account of* yourselves

DATE	CHARGES	AMOUNT	DATE	SALES	AMOUNT
6 15	Freight	59 47	6 16	200 bales, 20119 lbs. 14.00	140 83
12	Other Charges Labor	2 50	21	290 " 28365 " 14.00	198 56
	Returns				
25	Drayage	9 80			
	Storage	4 90		10 bales, 1077 lbs., too	
	Insurance	3 39		badly damaged to be sold.	
	Commission	16 97			
	Net Proceeds	242 36			
	Total	339 39		Total Sales	339 39
	Advances				
	Balance by check	242 36			

Illustration No. 90, Account Sales.

NOTE. The discussion of consignment accounts in §§ 205 and 206 is applicable to a business that has an occasional consignment inward or consignment outward, and not to one that does an extensive commission business. A very thorough discussion of consignment accounts is given in Applied Theory of Accounts by Paul J. Esquerre, C. P. A., published by the Ronald Press Co., New York, and Principles of Accounting by John Raymond Wildman, C. P. A., published by The William G. Hewitt Press, New York.

ACCOUNTS RECEIVABLE.

§ 210. **Accounts receivable** is a term used to represent the total amount due from the regular customers of the business. As a rule, these will be far more numerous than any other class of accounts. For this reason it is customary to group them in one or more special ledgers arranged alphabetically or geographically. When accounts with customers are kept in a special ledger or ledgers, or in a special part of the general ledger, it is better to keep one account which will show all the transactions in total. This may be named Accounts Receivable, Sales Ledger Account, A-C Ledger, D-E Ledger, City Ledger, Country Ledger, etc. Where the personal accounts are grouped in this manner and a special account kept to show the total, this account is used in taking the Trial Balance. When the Trial Balance has been proved, the accounts in the special ledger or ledgers are then proved with the account or accounts that represent them in the general ledger. The accounts in the general ledger are termed controlling accounts.

SALES LEDGER ACCOUNT.

§ 211. **The Object of this Account** is to show the total amount due on account from customers. It is a controlling account and represents the balance of the various accounts with customers in the sales ledger. This account is very popular with practicing bookkeepers because the Trial Balance from the general ledger may be proved to be correct without including the numerous accounts with customers, thus saving time in locating errors.

Debit Sales Ledger Account:

¶ 1. With the balance due from customers at the time the account is opened.

¶ 2. With the amounts charged to customers in the journal or cash book.

¶ 3. At the end of the month with the total credit sales for the month in the sales book.

Credit Sales Ledger Account:

¶ 4. With the total of the Sales Ledger column in the journal.

¶ 5. With the total of the Sales Ledger column on the debit side of the cash book.

¶ 6. With the total of the Sales Discount column on debit side of cash book.

¶ 7. *The Balance of this Account* shows the amount due from customers and must be the same as the total of the various balances shown by the accounts in the sales ledger. The balance is proved to be correct after the general Trial Balance has been made and proved. It is shown as a current asset on the Balance Sheet.

¶ 8. *To Close the Sales Ledger Account.* This account is not closed until it balances, unless it is necessary to transfer the balance to a new page, or it is desired to rule the account and carry the balance down on the same page. The balance and the date of closing are entered on the debit side, the account ruled with single and double red lines and footed with black ink. The balance is carried down on the debit side below the ruling, or forwarded to the new page.

Sales Ledger

19							19					
June	1	Balance	✓	3227	54		June	30		J7	197	65
		Due C.A. Howell	J5	595	92				Cash Receipts	C14	8307	62
	26	Meridan Hotel	J7	26	50				Sales Discount	C14	124	50
	30	Credit Sales	S36	6983	97				Balance	✓	2204	16
				10833	93						10833	93
July	1	Balance	✓	2204	16							

Illustration No. 91, Sales Ledger Account.

RESERVE FOR DOUBTFUL ACCOUNTS ACCOUNT.

§ 212. The Object of this Account is to show the net amount of the reserve set aside to take care of possible loss on account of doubtful accounts. No matter how careful a credit man may be in extending credit, some of the accounts are almost sure to prove worthless. Unless this is considered at the time the Statement of the Business is made, it will not show the real financial condition of the business. To provide for this a reserve is created at the close of the fiscal period, the amount of which is determined by the management.

Debit Res. for Doubtful Accts. Acct.:

¶ 1. With the amount that can not be collected from a customer, this entry being made at the time the account has proved worthless.

Credit Res. for Doubtful Accts. Acct.:

¶ 2. At the close of each fiscal period with the percentage of accounts receivable considered uncollectible by the management.

¶ 3. *The Balance of this Account* shows the net amount of reserve available to take care of worthless accounts. It may be shown on the Balance Sheet as a deduction from accounts receivable or as a liability, preferably as a deduction.

¶ 4. *To Close the Reserve for Doubtful Accounts Account.* This account is not closed until it balances, unless it is necessary to transfer the balance to a new page. The balance, together with the date of closing and the new page are entered on the smaller side with red ink, the account ruled with single and double red lines and footed with black ink. The balance is entered on the opposite side of the account on the new page.

NOTE. Some bookkeepers close those accounts that are long past due and considered uncollectible into a Doubtful Accounts account and carry the balance in this account until assured that collection can not be made; the amount is then charged to the Reserve for Doubtful Accounts account. This plan may be advisable under certain circumstances, but as a rule it is better practice to leave the customer's account open in the ledger until it has proved uncollectible and then charge it direct to the Reserve account. The name of the account charged to the Reserve account should be written in the explanation column. If a loose leaf ledger is used, the sheet on which the account is shown may be removed from the current binder and placed in a special binder for future reference. Sometimes accounts that are apparently uncollectible are collected, hence the advisability of keeping a record of those that are charged off.

TRAVELING EXPENSE ACCOUNT.

§ 213. The Object of this Account is to show the expense incurred by traveling men, which includes railroad fare, hotel accommodations, salary, commission and other authorized expenditures. Traveling expenses are a part of the selling cost.

Debit Traveling Expense Account:

¶ 1. For the salaries of traveling men.

¶ 2. For amounts paid for railroad fare, hotel accommodations, livery, etc., as shown by each traveling man's weekly or monthly report of expenses.

Credit Traveling Expense Account:

¶ 3. For any amount received that decreases the charges made to this account.

¶ 4. *The Difference Between the Two Sides of this Account* shows the amount of expense incurred by traveling men. It is shown as a selling expense on the Profit and Loss statement.

¶ 5. *To Close the Traveling Expense Account.* This account is closed into the Profit and Loss account by the journal entry that closes those accounts affecting the Profit and Loss statement. After this entry is posted, it will balance and is ruled with single and double red lines and footed with black ink.

Traveling Expense

'19				'19				
June	22	J11	77 65	June	30	Profit & Loss	J16	179 75
	30	J15	102 10					
			179 75					179 75

Illustration No. 92, Traveling Expense Account.

BOOKS OF ACCOUNT.

§ 214. **The same books** of original entry are used in June as in the preceding months, i. e., the journal, sales book, purchases book and cash book. The same form of sales book and purchases book is used, but a change is made in the form of journal and cash book. These are explained in the following sections.

§ 215. **Cash Book.** This has the same ruling as in the preceding month, the only difference being in the use of the columns.

¶ 1. *Debit Side.* Amounts received from customers are entered in the first column; discount on these payments, in the second column on the same line with the entry in the first column, and amounts received which affect accounts in the general ledger are entered in the third column.

¶ 2. *Credit Side.* Amounts paid that affect accounts in the general ledger are entered in the first column, discount on amounts paid creditors, in the second column, and amounts paid for selling expense are entered in the third column.

¶ 3. *To Prove Cash.* Foot each of the three columns on the debit side, entering the totals in small pencil figures just beneath the blue line on which the last amount is entered. Foot the three columns on the credit side and enter the totals of each in small pencil figures just beneath the line on which the last entry is made. From the total of the first and third columns on the debit side, subtract the total of the first and third columns on the credit side. The difference is the cash balance as shown by the last balance on the check stub, or this balance plus cash and checks in the cash drawer.

¶ 4. *To Post from the Debit Side of the Cash Book.* Each amount entered in the first column on the debit side is posted to the credit side of the account in the sales ledger written on the same line with it; each amount in the second column is posted to the credit side of the account in the sales ledger written on the same line with it; each amount in the third column is posted to the credit side of the account in the general ledger written on the same line with it. At the end of the month the total of the first column is posted to the credit side of the Sales Ledger account in the general ledger; the total of the second column is posted to the credit side of the Sales Ledger account, and also to the debit side of the Sales Discount account in the general ledger. The total of the third column is not posted. The total cash receipts are posted to the Cash account.

¶ 5. *To Post from the Credit Side of the Cash Book.* Each amount entered in the first column on the credit side is posted to the debit side of the general ledger account written on the same line with it; each amount in the second column is posted to the debit side of the general ledger account written on the same line with it. Amounts entered in the third column are not posted, the total being posted at the end of the month. At the end of the month the total of the first column is not posted; the total of the second column is posted to the credit side of the Purchases Discount account; the total of the third column is posted to the debit side of the Selling Expense account. The total payments are posted to the Cash account.

§ 216. **Special Column Journal.** This is ruled with three money columns, General Ledger Dr., General Ledger Cr., and Sales Ledger Cr. The special Sales Ledger column is necessary when a Sales Ledger account is kept in the general ledger, otherwise each credit to an account in the sales ledger would have to be posted twice. When a transaction affects the credit side of an account that appears in the sales ledger, the amount is entered in the Sales Ledger Cr. instead of the General Ledger Cr. column. Amounts entered in this column are posted in the sales ledger to the credit side of the accounts affected. At the end of the month the total of this column is posted to the credit side of the Sales Ledger account in the general ledger.

C. O. D. Shipments.

§ 217. When a Sale is made and the purchaser agrees to pay for the merchandise when it is delivered, the terms are C. O. D., that is, "Collect on Delivery." If the customer resides in the same city, the delivery may be made by wagon or automobile; if he resides out of the city, delivery is made by freight, express, or parcel post. The purchaser should be required to pay in advance a part of the sale price if the C. O. D. shipment is to be made by parcel post, express, or freight. This provides against loss on account of transportation charges if the shipment is refused. See "Special" on page 142.

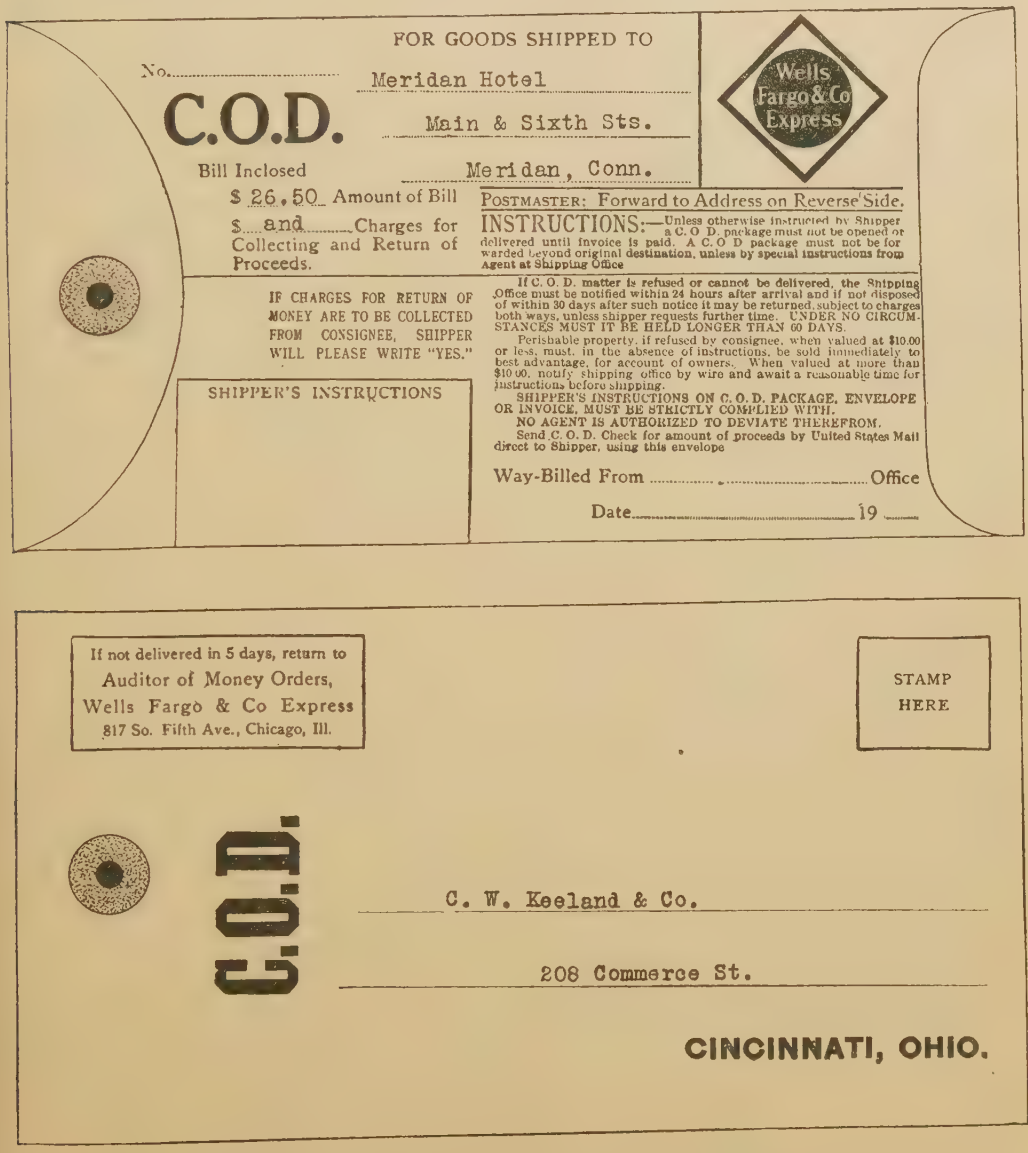

No.
C.O.D.
Bill Inclosed
$ 26.50 Amount of Bill
$ and Charges for Collecting and Return of Proceeds.
FOR GOODS SHIPPED TO
Meridan Hotel
Main & Sixth Sts.
Meridan, Conn.
Wells Fargo & Co Express
POSTMASTER: Forward to Address on Reverse Side.
INSTRUCTIONS:—Unless otherwise instructed by Shipper a C. O. D. package must not be opened or delivered until invoice is paid. A C. O. D. package must not be forwarded beyond original destination, unless by special instructions from Agent at Shipping Office
IF CHARGES FOR RETURN OF MONEY ARE TO BE COLLECTED FROM CONSIGNEE, SHIPPER WILL PLEASE WRITE "YES."
If C. O. D. matter is refused or cannot be delivered, the Shipping Office must be notified within 24 hours after arrival and if not disposed of within 30 days after such notice it may be returned, subject to charges both ways, unless shipper requests further time. UNDER NO CIRCUMSTANCES MUST IT BE HELD LONGER THAN 60 DAYS.
Perishable property, if refused by consignee, when valued at $10.00 or less, must, in the absence of instructions, be sold immediately to best advantage, for account of owners. When valued at more than $10.00, notify shipping office by wire and await a reasonable time for instructions before shipping.
SHIPPER'S INSTRUCTIONS ON C. O. D. PACKAGE, ENVELOPE OR INVOICE, MUST BE STRICTLY COMPLIED WITH.
NO AGENT IS AUTHORIZED TO DEVIATE THEREFROM.
Send C. O. D. Check for amount of proceeds by United States Mail direct to Shipper, using this envelope
SHIPPER'S INSTRUCTIONS
Way-Billed From ..... Office
Date ..... 19 ....
If not delivered in 5 days, return to
Auditor of Money Orders,
Wells Fargo & Co Express
817 So. Fifth Ave., Chicago, Ill.
STAMP HERE
C.O.D.
C. W. Keeland & Co.
208 Commerce St.
CINCINNATI, OHIO.

Illustration No. 92a, Both Sides of a C. O. D. Express Envelope.

¶ 1. *Freight Shipments.* When a C. O. D. shipment is to be made by freight, the package is addressed to the shipper at the address of the consignee. An "order" bill of lading (C. O. D. form) is used in place of the regular bill of lading. The name of the shipper appears in the space for that of the consignee, accompanied by the words "Notify C. A. Jones & Co." (name of consignee). When the bill of lading has been signed by the agent of the Railroad Company, a sight draft, drawn in favor of some bank or collection agency, is attached to the bill of lading and sent to the bank or agency for collection. The bill for the shipment is sent to the consignee, the terms being "C. O. D.," or "Sight Draft attached to Bill of Lading." When the shipment arrives at its destination, the consignee is notified and it is delivered to him upon presentation of the original bill of lading. Since this is attached to the sight draft, it is necessary for him to pay the draft before he can obtain the shipment.

The order bill of lading mentioned above does not differ materially from Illustration No. 73, except a blank space is provided on the back for the endorsement. The order bill of lading is illustrated in the practice sets which accompany the text, in connection with C. O. D. shipments.

¶ 2. *Express Shipments.* When a C. O. D. shipment is made by express, the Express Company will not deliver it until the purchaser pays the charges and the value of the shipment. A bill is made for the amount of the shipment and enclosed in a special envelope (Illustration No. 92a) supplied by the Express Company; the amount is indicated on the outside of the envelope. This envelope accompanies the package and is used by the agent at the destination for returning the amount collected for the shipment. The remittance is by express money order or a special C. O. D. check.

¶ 3. *Parcel Post Shipments.* When a C. O. D. shipment is made by parcel post, a special ticket, provided by the Post Office Department, is attached to the package; this shows the amount to be collected before delivery is made. When delivery is made, the postmaster at the point of delivery mails the consignee a Post Office money order for the amount shown on the ticket.

ANALYSIS AND COMPARATIVE RESULTS.

§ 218. The Purpose of Making an Audit is (a) to ascertain the correctness of the work of the bookkeeper, (b) to analyze the results, and (c) to obtain facts which will be of value to the management in the future operations of the business. All the work of the bookkeeper should be audited by an auditor at least once each year, but that part which relates to the final results and the comparison of these results with former periods may be performed by the bookkeeper. These comparative statements should be prepared in such form that the manager may get the most out of them in the shortest possible time. The reason for this is made evident by the following quotation from "Auditing, Theory and Practice" by Robert H. Montgomery, C. P. A.:

"The average business man has been trained from boyhood, to read facts and figures from continuous printed pages. The Trial Balance of a ledger means nothing to him, except that part of it which contains the accounts receivable and payable, and these must not be called 'Debit Balances' or 'Credit Balances' if we would avoid the chance of being misunderstood.

"Many intelligent people fail to grasp the usual and conventional hypothesis underlying the theory of double entry bookkeeping, and therefore facts or figures presented to them in a technical or formal shape may not accomplish the intended result.

"Probably the majority of business men have been shown Trial Balances from their books which mean nothing to them, and this applies to the usual monthly

balance as well as to the one made after closing the books. A Balance Sheet in conventional form is perfectly clear to the eye trained to read and understand figures and is perhaps as concise and satisfactory an exhibit as could be desired *for the person who understands figures*, but thousands of business men frankly acknowledge that they do not grasp the full importance of a financial statement in the accepted form.

"But if the man who is entitled to know all the facts contained in these Balance Sheets can not or will not understand this method of presentation, it is the duty of the accountant to try another form and keep on trying until the results of his business become as interesting *reading* to him as the daily trade reports."

The information referred to in this quotation includes not only the results from the operations of the business for the current period, but also a comparison of these results with the operations for previous periods. The desired information includes the net cost of merchandise purchased, the net returns from sales, the gross profit on sales, the merchandise returned by customers (debit side of the Sales account), the rebates allowed customers (balance of the Sales Rebates and Allowances account), the freight cost, the cost of selling the goods (Selling Expense account), the cost of conducting the business (General Administrative Expense account), and the profit for the period. This information includes the amount of increase or decrease and the percentage of increase or decrease.

¶ 1. *Graphic Charts.* One of the best methods of presenting comparative facts is by the use of a chart. The charts portray the situation far more graphically than columns of figures, and in many cases are more valuable to the business man. The following illustrations show the practical application of the charts. Full explanation is given in connection with each illustration. If the percentage of increase or decrease is desired, a table showing these facts should accompany the chart. The best place for a chart is on the wall of a private office, or in a specially prepared holder.

Exercises in Purchases and Sales Charts. Prepare a chart for each of these three exercises. Exercise No. 76 is the same as Illustration No. 93. Use paper twice the size of the illustrations; rule in squares as in the illustrations and divide each square into five or ten units by lines.

Exercise No. 76, Purchases and Sales.

December 31, 1916, Purchases $5,000.00, Sales $4,000.00; January, 1917, Purchases $6,000.00, Sales $5,000.00; February Purchases $7,100.00, Sales $6,100.00; March Purchases $4,600.00, Sales $6,800.00; April Purchases $5,900.00, Sales $8,200.00; May Purchases $4,700.00, Sales $8,900.00; June Purchases $4,800.00, Sales $9,300.00; July Purchases $5,000.00, Sales $8,800.00; August Purchases $4,600.00, Sales $8,850.00; September Purchases $2,800.00, Sales $9,800.00; October Purchases $4,300.00, Sales $9,850.00; November Purchases $4,000.00, Sales $10,000.00; December Purchases $4,500.00, Sales $11,500.00.

Exercise No. 77, Purchases and Sales.

December 31, 1915, Purchases $4,200.00, Sales $3,900.00; January, 1916, Purchases $4,500.00, Sales $3,600.00; February Purchases $2,900.00, Sales $4,200.00; March Purchases $3,600.00, Sales $4,500.00; April Purchases $3,900.00, Sales $6,100.00; May Purchases $4,500.00, Sales $5,100.00; June Purchases $2,700.00, Sales $4,800.00; July Purchases $2,900.00, Sales $4,700.00; August Purchases $3,200.00, Sales $4,000.00; September Purchases $1,800.00, Sales $4,200.00; October Purchases $2,500.00, Sales $5,600.00; November Purchases $3,300.00, Sales $5,200.00; December Purchases $1,900.00, Sales $3,300.00.

Exercise No. 78, Purchases, Sales and Selling Expense.

Dec. 31, 1916, Purchases $2,721.35, Sales $3,826.01, Selling Expense $550.00; Jan., 1917, Pur. $2,852.35, Sales $3,946.22, S. Expense $525.87; Feb. Pur. $3,129.75, Sales $4,456.29, S. Expense $603.55; Mar. Pur. $2,544.19, Sales $5,175.62, S. Expense $725.00; Apr. Pur. $3,987.62, Sales $4,998.75, S. Expense $800.00; May Pur. $2,652.91, Sales $6,547.22, S. Expense $950.00; June Pur. $1,998.45,

(*Concluded on page 175.*)

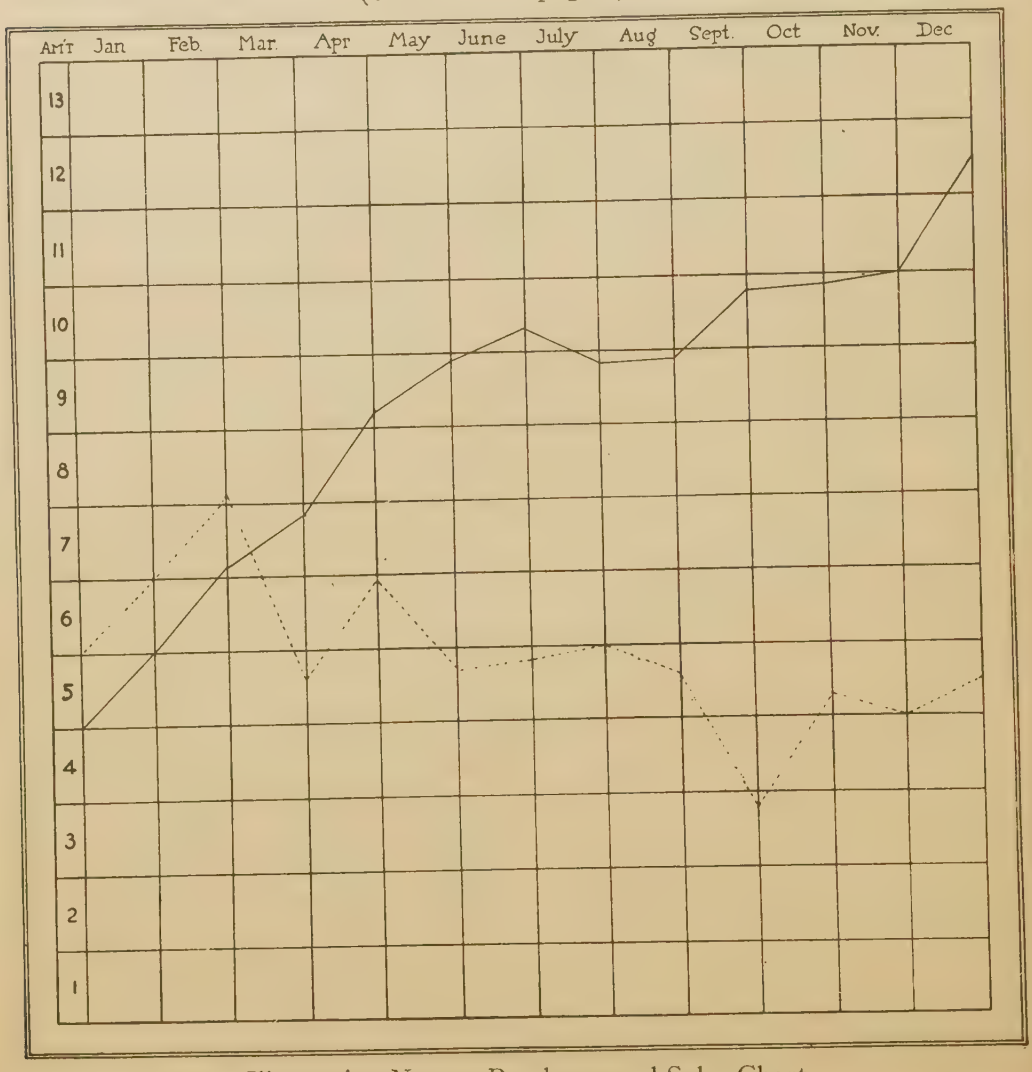


Illustration No. 93, Purchases and Sales Chart.

EXPLANATION. The purpose of this chart is to illustrate the cost of merchandise purchased, and the returns from sales for the year 1917. The figures are shown in Exercise No. 76. The solid line shows the sales and the dotted line the purchases, each beginning with December at the left of the January column and ending with December at the right of the December column. The figures at the left represent thousands; the months are given at the top. In practice work, the chart should be made much larger than the illustration. Special ruled paper may be purchased at a stationery store for completing these charts; if not available, each square should be divided horizontally into ten equal units to provide for hundreds.

(*Exercise No. 78, Continued from page 174.*)

Sales $5,152.78, S. Expense $825.00; July Pur. $2,950.00, Sales $4,865.00, S. Expense $750.00; Aug. Pur. $3,175.50, Sales $4,900.25, S. Expense $758.00; Sept. Pur. $2,192.65, Sales $5,548.90, S. Expense $850.00; Oct. Pur. $2,655.90, Sales $6,156.80, S. Expense, $1,005.00; Nov. Pur. $1,998.50, Sales $5,642.90, S. Expense $950.00; Dec. Pur. $1,429.75, Sales $5,148.60, S. Expense $875.00.

Use $100.00 units in the purchases and sales, and $50.00 units in the selling expense; show the selling expense at the bottom of the chart. Let each space equal $100.00 and divide in ten divisions.

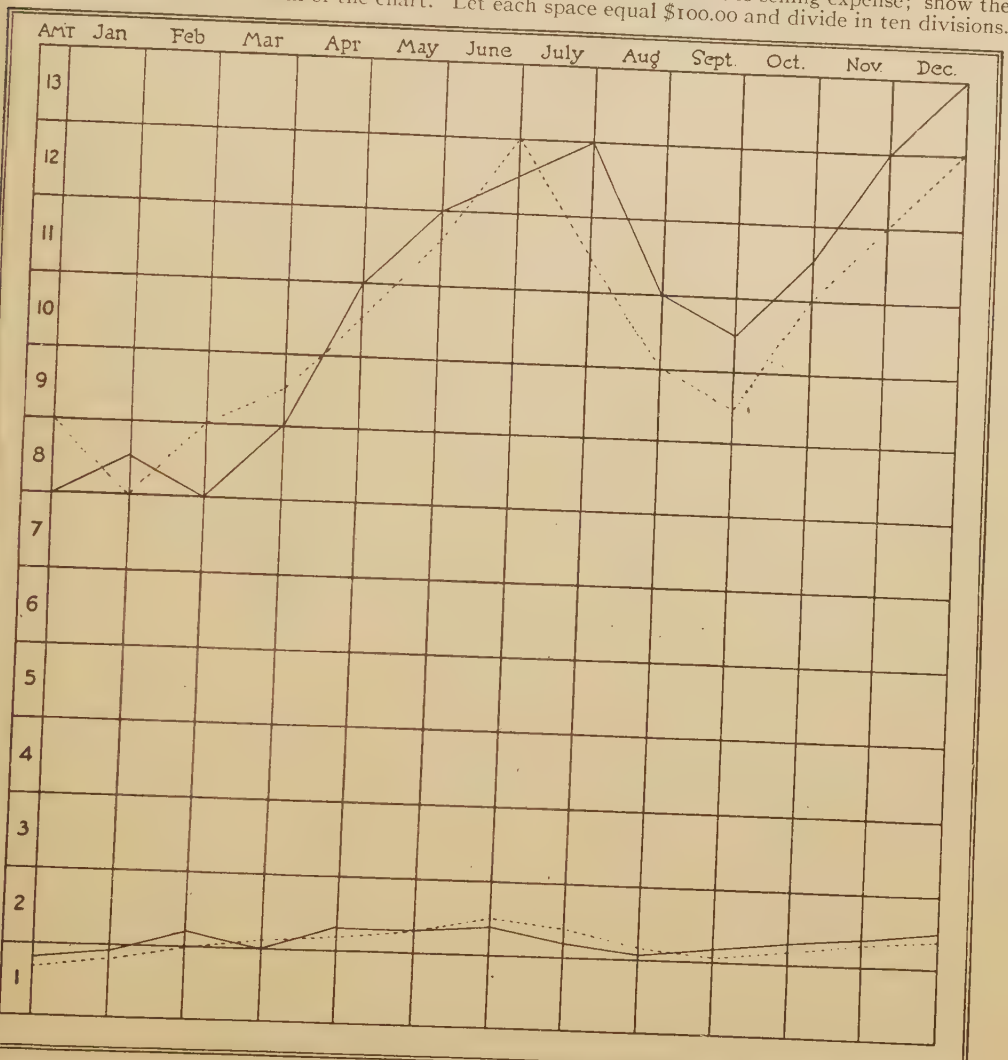


Illustration No. 93a, Chart Showing Comparative Sales and Selling Expense.

EXPLANATION. The purpose of this chart is to illustrate the monthly sales for 1917 compared with the monthly sales for 1916, also the expense of making the sales for 1917 compared with the expense of making the sales in 1916. The figures are given in Exercise No. 79. The sales for 1917 are represented by the solid line at the top, and the sales for 1916 by the dotted line at the top. The selling expense for 1917 is represented by the solid line at the bottom, and the expense for 1916 by the dotted line at the bottom, each beginning with December at the left of the January column and ending with December at the right of the December column. The figures at the left represent thousands. The facts shown by this chart are valuable to the management in planning for 1918 business.

Exercises in Comparative Charts. Prepare a chart for each of these two exercises. Exercise No. 79 is the same as Illustration No. 93a.

Exercise No. 79, Sales and Selling Expense.

	Sales		Selling Expense	
	1916	1917	1916	1917
December, 1915	$8,000.00	$7,000.00	$ 700.00	$ 800.00
January	7,000.00	7,500.00	800.00	900.00
February	8,000.00	7,000.00	1,000.00	1,200.00
March	8,500.00	8,000.00	1,100.00	1,000.00
April	9,500.00	10,000.00	1,200.00	1,300.00
May	10,600.00	11,000.00	1,300.00	1,300.00
June	12,000.00	11,500.00	1,500.00	1,400.00
July	10,500.00	12,000.00	1,400.00	1,200.00
August	9,000.00	10,000.00	1,200.00	1,100.00
September	8,500.00	9,500.00	1,100.00	1,200.00
October	10,000.00	10,500.00	1,200.00	1,300.00
November	11,000.00	12,000.00	1,300.00	1,400.00
December	12,000.00	13,000.00	1,400.00	1,500.00

Exercise No. 80, Sales and Selling Expense.

	Sales		Selling Expense	
	1916	1917	1916	1917
December, 1915	$25,000.00	.....	$2,800.00	.....
January	26,900.00	$27,500.00	3,000.00	$3,200.00
February	28,265.00	28,000.00	3,100.00	3,300.00
March	29,750.00	31,500.00	3,200.00	3,500.00
April	28,500.00	32,000.00	3,300.00	3,600.00
May	30,500.00	31,000.00	3,000.00	3,500.00
June	33,650.00	34,000.00	3,500.00	4,000.00
July	31,500.00	29,100.00	3,000.00	3,200.00
August	26,500.00	25,000.00	2,800.00	2,900.00
September	30,500.00	32,400.00	3,600.00	4,000.00
October	32,750.00	33,500.00	3,600.00	4,000.00
November	31,800.00	36,000.00	3,500.00	4,200.00
December	27,500.00	28,500.00	3,300.00	3,800.00

QUESTIONS.

1. Define consignments. (§ 204.)
2. What is the object of the Consignment Outward account? (§ 205.)
3. How is the balance shown on the Statement of the Business? (§ 205, ¶ 4.)
4. How is the inventory shown on the Statement of the Business? (§ 205, ¶ 4.)
5. How would the management ascertain the profit on each consignment?
6. What is the object of the Consignment Inward account? (§ 206.)
7. Distinguish between Consignments Inward and Consignments Outward.
8. How is the balance of the Consignment Inward account shown on the Statement of the Business? (§ 206, ¶ 7.)
9. How is the inventory of merchandise on hand belonging to consignments inward indicated on the Statement of the Business? (§ 206, ¶ 7.)
10. What is the object of the Commission account? (§ 207.)
11. How is the balance shown on the Statement of the Business? (§ 207, ¶ 3.)
12. What is the purpose of an invoice of shipment? (§ 208.)
13. What is the purpose of an account sales? (§ 209.)
14. Define accounts receivable. (§ 210.)
15. What is the object of the Sales Ledger account? (§ 211.)
16. How is the balance shown on the Statement of the Business? (§ 211, ¶ 7.)
17. What is the object of the Reserve for Doubtful Accounts account? (§ 212.)
18. What is the object of the Traveling Expense account? (§ 213.)
19. How is the balance shown on the Statement of the Business? (§ 213, ¶ 4.)
20. Describe the method of making C. O. D. freight and express shipments.

SINGLE ENTRY BOOKKEEPING.

DECEMBER

§ **219. Single Entry** is best defined as any method that is not Double Entry, because the application of the method varies with the wishes of the proprietor or bookkeeper. Any account kept by the Double Entry method may be used in the Single Entry method. Thus, if a detailed account of the expense of the business is desired, an Expense account may be kept. If it is necessary to keep a record of the goods purchased and sold, one Merchandise account, or Purchases and Sales accounts (§ 39) may be kept. If a cash register is used, or there is not enough cash handled to justify the keeping of a Cash account, this may be omitted.

From the above it will be seen that Single Entry is really no definite method of keeping books. Most business men understand that the Single Entry method means the keeping of personal accounts only, and, as a rule, a Single Entry set of books contains only personal accounts.

§ **220. Comparison.** In Single Entry the record may be made according to the wishes of those interested, and any desired accounts kept; in Double Entry the record and accounts kept must conform to certain principles, which can not be changed; the name of an account might be changed, but its real meaning must remain the same. In Single Entry, the bookkeeper has no check on his accuracy in posting, footing accounts in the ledger, and making the Statement of the Business; in Double Entry he knows by the Trial Balance that the debits and credits in each transaction have been posted, the accounts in the ledger footed correctly, and that the Balance Sheet and Profit and Loss statements show the correct profit.

The advantages of Double Entry are so apparent that this method is used by every up-to-date business man who employs a bookkeeper, and by many who do not. The reason Single Entry is used in many cases is because the one who keeps the books knows nothing of the many advantages of Double Entry. The teacher who wishes to do the most for his pupil will teach him all the advantages of Double Entry, and instruct him to change to Double Entry any Single Entry set he may have to keep.

§ **221. Books of Account.** Any book used with the Double Entry method may be used with Single Entry; but the day book, cash book, and ledger are the most popular with those who claim to "know" the latter method. Of course, they do not know any method, but only know what they want their books to show, and can get the desired results by using these three books.

§ **222. Day Book.** This is a book of original entry. All transactions, except those in which cash is received or paid, are entered in this book in the order in which they occur. The two money columns do not indicate debits and credits, hence it is necessary to write Dr. and Cr. (abbreviation of debit and credit) after the name of the account. This shows to which side of the account in the ledger the amount is to be posted. Amounts to be posted are placed in the second column on the same line as the name of the account. Illustration No. 94 shows the form of day book to be used.

§ **223. Single Entry Cash Book.** Any desired form of ruling may be used. The form given in Illustration No. 95 shows one very popular with those who keep a cash book in connection with a Single Entry set of books. The ruling is similar to the ordinary journal; receipts are entered in the first column, and payments in the second column. When the cash book is ruled at the end of the month, the balance is entered in the credit column, the word "Balance" written at the left, the two columns ruled, and the balance brought down, as in Illustration No. 95.

§ **224. Ledger.** This book may be similar to any ledger used with a Double Entry set of books; that is, it may have the regular ledger ruling or any special ruling adapted to the needs of the business. In every case it must be ruled with two money columns, one for the debit amounts, and one for the credit amounts. Some blank book manufacturers make a book which is labeled "Single Entry Ledger." This is ruled like the day book and provided with an index. This form is used when the day book and cash book are omitted, and the transactions entered direct in the ledger.

December 2, 19

W. H. La Rue	Cr.			1250
Notes Payable (60 days)	Cr.			500
Notes Payable (90 days)	Cr.			500
Bought stationery stock for $2250.00				
Paid cash $1000.00, gave two notes, $500.00				
each, due in 60 and 90 days; balance to				
be paid before January 1st				
3				
Belknap Stationery Co., Louisville	Cr.			150
Bought merchandise on account				
per invoice of this date.				
3				
C. L. McClure, City	Dr.			42 50
1 Section, Base and Top Y. & E. File		25		
1 gross Note Books		17 50		

Illustration No. 94, Single Entry Day Book.

Cash Book

19					Receipts	Payments
Dec.	1		C. W. Ogden, Cash.	Investment	1500	
	2		W. H. La Rue	Part payment stock		1000
	5	✓	Gruffon Transfer Co.	Freight and drayage		14 87
	6		W. H. La Rue	On account		150
		✓	Expense	Employees' wages		65 40
		✓	Sales	Sundry cash sales	204 09	
	10		University School	In full of account	175	
	11	✓	Expense	Light, phone and stamps		24 60
	13		Graham Paper Co.	In full of account		196 42
		✓	Discount	On above	5 89	
*						
	31	✓	Gruffon Transfer Co.	Freight and drayage		6 25
		✓	Balance		382533	272573
						109960
					382533	382533
19 Jan.	1	✓	Balance		109960	

Illustration No. 95, Single Entry Cash Book.

*The break indicates a number of entries omitted.

TRANSACTIONS FOR DECEMBER.

Record the following transactions in the Single Entry day book and cash book, and post to the ledger when instructed. Accounts will be kept only with Notes Receivable, Notes Payable, C. W. Ogden Capital, and persons from whom merchandise is purchased on account, and those to whom merchandise is sold on account.

1. C. W. Ogden invests $1,500.00 in the retail stationery and office supplies business.

Enter in the cash book as in Illustration No. 95.

2. Bought from W. H. LaRue, City, stock of stationery and office supplies for $2,250.00, paying cash $1,000.00, two notes of $500.00 each, due in 60 and 90 days, balance to be paid before January 1st.

Enter in the day book and cash book as in Illustrations Nos. 94 and 95.

3. Bought from Belknap Stationery Co., Louisville, on account, stationery per invoice of this date, $150.00.

Enter in the day book as in Illustration No. 94.

Sales on account: C. G. McClure, City, 1 section, base, and top, Y. & E. files, $25.00; 1 gross note books, $17.50. University School, University Park, 1 multigraph, $170.00; 1 doz. ribbons, $5.00.

Enter in the day book as in Illustration No. 94.

4. Bought from Graham Paper Co., St. Louis, stationery per invoice of the 3d, $196.42; terms, 3/10, n/30.

The terms indicate that 3% may be deducted if payment is made within ten days.

5. Paid Gouffon Transfer Co. $14.87, freight and drayage on above goods.

Enter in the cash book as in Illustration No. 95. No account is kept with Freight and Drayage, hence the check mark (√) in the L. F. column.

6. Sale on account: C. J. McDaniels, City, 1 ledger, $3.50; 1 doz. pencils, 75c; 2 bxs. typewriting paper at $1.00; 1 dictionary, $14.00.

Paid W. H. LaRue $150.00 on account, and employees' wages to date, $65.40.

Cash sales to date, $204.09.

Post to the ledger. All amounts in the second column of the day book are posted to the debit or credit side of the account written on the same line with them; the debit or credit is indicated by "Dr." or "Cr." Post each amount in the first column of the cash book to the credit side of the account written on the same line with it, unless it has a check mark in the L. F. column; post each amount entered in the second column to the debit side of the account written on the same line with it, unless it has a check mark in the L. F. column. Allow one-fifth of a page for each account.

8. Bought from American Stationery Co., Cincinnati, merchandise per invoice of the 6th, $264.75; terms, 5/10, n/60.

9. Sale on account: R. R. Oglesby & Co., Hamilton, 1 typewriter, $100.00; 1 desk, $35.00; 5 gross note books at $14.00; 2 sections Y. & E. files with top and base, $64.00.

10. Received $175.00 from University School in full of account.

11. Paid electric light bill, $13.60; phone rent, $6.00, and stamps, $5.00.

Sales on account: Ormendorff Bros., City, 1 set of Dickens, $70.00. City Electric Co., City, 1 gross tablets, $17.00; 3 sections Y. & E. files at $14.00; 1 desk, $36.00; 5 ink wells at 25c.

12. Bought from Yawman & Erbe Mfg. Co., Rochester, merchandise per invoice of the 10th, $136.42; terms, 60 days. Bought from Johnston Bros., City, on account, 5 gross mucilage at $2.50.

13. Paid Graham Paper Co. amount due, less discount.

Enter in the cash book as in Illustration No. 95.

(*Continued on page 180.*)

(*December Transactions—Continued from page 179.*)

13. Sales on account: M. B. Arnstein, City, 2 gross tablets at $17.75; 1 desk, $39.50; 2 sections Y. & E. files at $14.00. Bean, Waters & Co., City, 3 gross tablets at $14.00; 1 box typewriting paper, $1.00.

Paid cash as follows: C. W. Ogden, private use, $50.00; employees' salaries for the week, $86.45; Gouffon Transfer Co., freight and drayage, $32.65.

Cash sales to date, $291.76.

Post from the day book and cash book, and check the posting from the 1st to the 6th.

15. Collected from the following parties: C. G. McClure, $42.50; C. J. McDaniels, $10.00; Ormendorff Bros., $50.00; City Electric Co., $70.00.

Sales on account: C. G. McClure, 5 gross tablets at $14.00; 1 desk, $57.50. H. O. Nelson, City, 1 typewriter, $100.00; 1 gross penholders, $5.00; 5 bxs. typewriting paper at $1.00; 10 lbs. writing paper at 25c.

16. Paid American Stationery Co. $175.00 on account.

This is subject to 5% discount as per terms. Be sure to charge them with the correct amount.

Sale on account: Central Business College, City, 5 gross note books at $14.00; 1 gross tablets, $30.00; 1 gross penholders, $4.00; 8 gross ink at $3.75.

17. R. R. Oglesby & Co. gave us their note due in 30 days for $200.00 to apply on account.

Bought from Yawman & Erbe Mfg. Co., Rochester, merchandise per invoice of the 11th, $1,254.78; terms, 60 days.

18. Sales on account: C. G. McClure, 3 typewriters at $100.00; 1 gross pens, $5.00; 1 doz. ribbons, $7.50. W. R. Austin, Wilmington, 1 journal, $6.00.

Bought from Graham Paper Co., stationery per invoice of the 15th, $136.49; terms, 3/10, n/30.

19. Accepted Yawman & Erbe Mfg. Company's 60-day draft in full of invoice dated December 10th.

Paid W. H. LaRue $50.00 on account.

Sales on account: Ormendorff Bros., 1 desk, $35.00; 1 gross note books, $18.00; 3 sections Y. & E. files at $14.00. W. H. Pedigo, Danville, 1 desk, $45.00; 1 chair, $12.50; 3 gross tablets at $17.50; 100 blotters, 25c.

20. Bought from Yawman & Erbe Mfg. Co., merchandise per invoice of the 18th, $234.75; terms, 4/10, n/30.

Cash sales to date, $408.50.

Withdrew $75.00 for private use; paid employees to date, $92.75.

Post from the day book and cash book, and check posting from the 6th to the 13th.

22. Collected from customers as follows: M. B. Arnstein, in full; Bean, Waters & Co., in full; C. G. McClure, $100.00; Central Business College, $100.00.

Discounted R. R. Oglesby & Co.'s note at the bank, receiving credit for the face value, less $3.00 discount.

Enter face of the note in the first, and discount in the second column of the cash book.

23. Sale on account: University School, 3 gross note books at $17.00; 2 gross penholders at $5.00; 5 gross pencils at $4.00; 100 lbs. writing paper at 20c; 1 ledger, $2.75.

Paid W. H. LaRue balance due him.

24. Bought from American Stationery Co., merchandise per invoice of the 22d, $186.75; terms, 5/10, n/60.

(*Concluded on page 181.*)

(*December Transactions—Continued from page 180.*)

24. Sales on account: Central High School Supply Store, City, 2 gross journals at $20.00; 2 gross ledgers at $20.00; 5 gross note books at $14.00; 10 gross penholders at $5.00; 5 gross pencils at $4.55; 2 gross ink at $4.00. City Electric Co., 1 duplicator, $75.00.

Sent Graham Paper Co. a check in full of account, less discount.

26. Central High School Supply Store settled their account in full, less 2%, per contract.

W. H. Pedigo gave us his note due in 30 days in full of account.

Paid Belknap Stationery Co., $75.00 on account.

Bought from Standard Stationery Co., Cincinnati, merchandise per invoice of the 23d, $62.75; terms, 60 days.

27. Sent Yawman & Erbe Mfg. Co. a New York Exchange in full of invoice dated the 18th, less 4% discount. The bank charges 50c for issuing the exchange.

Sale on account: H. O. Nelson, 1 typewriter with special keyboard, $105.00.

29. Received from H. O. Nelson a 60-day note in full of account.

30. Bought from Chatfield & Woods, City, merchandise per invoice of the 27th, $169.25; terms, 3/10, n/60.

31. Cash sales to date, $268.15.

Paid employees to date, $86.27; rent for the month, $50.00; Gouffon Transfer Co., $62.75, freight and drayage to date.

31. Have decided to change the books from Single Entry to Double Entry.

Post and check all entries to date, and make a Statement of the Business as explained in § 225 and Illustration No. 96 using the following inventories: Merchandise in stock, $2,565.87; Office Equipment, consisting of desks, chairs, safe, etc., $200.00. Close the ledger as instructed in § 226, and make the opening entry in the journal to change to Double Entry as explained in § 227 and in Illustration No. 97. When this is completed, post the entries to the ledger, take a Trial Balance and present all books for approval.

§ **225. Single Entry Statement.** The net profit or net loss can always be ascertained whether the books are kept by Single Entry or Double Entry. To make a Single Entry statement proceed as follows: First, ascertain the value of all property on hand by taking an inventory. Second, list the assets and liabilities. As nothing but asset or liability accounts are kept, all debit balances are assets, and all credit balances, except the investment, are liabilities. Third, ascertain the difference between the assets and liabilities; this is the present worth of the business. If it is more than the net investment, there is a profit; if less, a loss. Illustration No. 96 shows the correct form of a Single Entry statement.

§ **226. Closing the Ledger.** As each account in the ledger, except the proprietor's Capital account, shows an asset or a liability, the proprietor's Capital account is the only one to close. It is closed in the same manner as the proprietor's Capital account in Double Entry, as explained in § 38, ¶ 10. The profit is entered on the credit side, or the loss, on the debit side, with red ink, the account ruled with single and double red lines, footed with black ink, and the "Present Capital" brought down in black ink on the credit side.

§ **227. Changing from Single to Double Entry.** When it is desired to change the books from the Single Entry method to that of Double Entry, it is necessary to make a statement of the business, and close the ledger, as explained in §§ 225 and 226. A journal entry is made from this statement, debiting all accounts that show an asset, and crediting those showing liabilities, and the proprietor for the investment. This journal entry will balance, since the total liabilities, plus the present worth of the proprietor equal the assets. When the accounts

SINGLE ENTRY STATEMENT, DECEMBER 31, 19

ASSETS				
Cash	1099	60		
Merchandise in stock (Inventory)	2565	87		
Office Equipment (Inventory)	200			
Ledger Accounts:				
Notes Receivable	337	66		
C. G. McClure	350			
University School	101	50		
C. J. McDaniels	12	75		
R. R. Oglesby & Co.	87			
City Electric Co.	110	25		
Ormendorff Bros.	103			
Central Business College	30			
W. R. Austin	8			
Total Assets			5005	63
LIABILITIES				
Ledger Accounts:				
Notes Payable	1146	33		
Belknap Stationery Co.	95			
American Stationery Co.	276	59		
Johnston Bros.	13	75		
Yawman & Erbe Mfg. Co.	1252	38		
Standard Stationery Co.	58	80		
Chatfield & Woods	172	50		
Total Liabilities			3015	35
C. W. Ogden's Present Capital			1990	28
C. W. Ogden's Net Investment			1375	
C. W. Ogden's Net Profit			615	28

Illustration No. 96, Single Entry Statement.

are opened in the ledger, write the word "Inventory" in the explanation column of those accounts which were not kept in the Single Entry ledger. In this set these are Inventory (merchandise on hand), Office Equipment, and Cash. After all the accounts are opened in the ledger, a Trial Balance is taken to prove that the books are in balance. See Illustration No. 97.

JANUARY 1, 19 ...

Cash	1099	60		
Inventory	2565	87		
Office Equipment (Inventory)	200			
Notes Receivable	337	66		
C. G. McClure	350			
University School	101	50		
C. J. McDaniels	12	75		
R. R. Oglesby & Co.	87			
City Electric Co.	110	25		
Ormendorff Bros.	103			
Central Business College	30			
W. R. Austin	8			
Notes Payable			1146	33
Belknap Stationery Co.			95	
American Stationery Co.			276	59
Johnston Bros.			13	75
Yawman & Erbe Mfg. Co.			1252	38
Standard Stationery Co.			58	80
Chatfield & Woods			172	50
C. W. Ogden, Capital			1990	28
Assets and liabilities at the beginning of the business				

Illustration No. 97, Journal Entry to change from Single Entry to Double Entry.

APPENDIX A.

§ 228. Introduction. The discussion in this Appendix relates (a) to the direct method of closing the ledger together with illustrations and (b) to the Merchandise account together with exercises.

§ 229. Direct Method of Closing the Ledger. As explained in § 84 on page 67, the purpose of closing the ledger is to transfer the net profit or net loss shown by the Profit and Loss statement to the Capital account. This is accomplished by closing the balance of each profit and loss account into the Profit and Loss account and closing the balance of this account into the Capital account. The facts on the Profit and Loss statement are used as a guide in the closing entries.

The usual method of procedure is to close (a) the accounts showing the results of transactions with the purchases and sales of merchandise; (b) accounts showing a profit or a loss; (c) the Profit and Loss account; (d) the Capital account or accounts.

¶ 1. **To Close the Merchandise Accounts.* Proceed as follows: *First*, enter the inventory (value of merchandise on hand) on the credit side of the Purchases account with red ink and on the debit side of the Inventory account with black ink, under the date of closing; write "Inventory" in the Purchases account, and "Purchases" in the Inventory account, as in Illustration No. 98. *Second*, enter the balance of the Purchases account (shown as "Cost of merchandise sold" on the Profit and Loss statement) on the credit side of the Purchases account with red ink, and on the debit side of the Sales account with black ink, under the date of closing; write "Sales" in the Purchases account, and "Purchases" in the Sales account. Rule and foot the Purchases account as in Illustration No. 98. *Third*, enter the balance of the Sales account (shown as "Gross Profit on Sales" on the Profit and Loss statement) on the debit side of the Sales account with red ink, and on the credit side of the Profit and Loss account with black ink, under the date of closing; write "Profit and Loss" in the Sales account, and "Sales" in the Profit and Loss account. Rule and foot the Sales account as in Illustration No. 98.

¶ 2. †*To Close Accounts Showing a Profit or a Loss.* Enter the balance of the account to be closed on the smaller side with red ink, and on the opposite side of the Profit and Loss account with black ink, under the date of closing; write "Profit and Loss" in the account closed, and the name of the account closed in the Profit and Loss account. Rule and foot each account as in Illustration No. 99.

¶ 3. *To Close the Profit and Loss Account.* Enter the balance on the smaller side of the Profit and Loss account with red ink, and on the opposite side of the Capital account with black ink, under the date of closing. Write the name of the Capital account in the Profit and Loss account, and "Profit and Loss" in the Capital account. Rule and foot the Profit and Loss account as in Illustration No. 100.

¶ 4. *To Close the Capital Account.* Enter the balance on the debit side with red ink under the date of closing; write "Present Capital" in the explanation column. Rule and foot the account, and carry the present Capital down on the credit side under date of the next business day, as in Illustration No. 101.

¶ 5. *To Close the Inventory Account.* Enter the balance on the credit side of the Inventory account with red ink under the date of closing, and below the ruling on the debit side of the Purchases account with black ink, under date of the next business day. Rule the Inventory account as in Illustration No. 98.

*The inventory is entered on the credit side of the Purchases account because the value of all merchandise purchased is shown by the debit side and cost price is used in estimating the inventory. The balance of the Purchases account is transferred to the Sales account because after the inventory is deducted from the total purchases, the difference is the cost of goods sold. The returns from sales are shown by the entries on the credit side of the Sales account, hence if the cost of sales is entered on the debit side, the difference between the two sides will be the profit resulting from selling merchandise. This is transferred to the Profit and Loss account.

†A resource inventory (§ 78) is entered with red ink on the credit side, and a liability inventory (§ 79), on the debit side before closing, and carried down on the opposite side after closing.

Purchases

19					19				
Jan.	5		C. 3	172	Jan	31	Inventory	2	882 46
	31		P. 1	1084 70			Sales	2	394 24
				1276 70					1276 70
Feb	1	Inventory	2	882 46					

Inventory

19					19				
Jan.	31	Purchases	2	882 46	Jan.	31	Purchases	2	882 46

Sales

19					19				
Jan.	31	Purchases	2	394 24	Jan	6		C. 2	30
		Profit and Loss	3	263 81		13		C. 2	40
				657 05		20		C. 2	50
						27		C. 2	42 50
						31		L. 4	494 55
									657 05
				657 05					657 05

Illustration No. 98, Purchases, Inventory, and Sales Accounts closed as explained in § 229, ¶¶ 1 and 5.

Expense

19					19				
Jan	4		C. 3	20	Jan	31	Profit and L.	3	80
	31		P. 3	60					
				80					80

Illustration No. 99, Expense Account closed as explained in § 229, ¶ 2.

Profit and Loss

19					19				
Jan.	31	Expense	3	80	Jan.	31	Sales	2	26281
		W. H. G. Capital	1	18201					
				26281					26281

Illustration No. 100, Profit and Loss Account closed as explained in § 229, ¶ 3.

W. H. Goodwin, Capital

19					19				
Jan	31	Present Capital	✓	218281	Jan.	1		C. 2	2000
						31	Profit and Loss	3	18281
				218281					218281
					Feb.	1	Present Capital	✓	218281

Illustration No. 101, Capital Account closed as explained in § 229, ¶ 4.

MERCHANDISE ACCOUNT.

§ 230. The Object of this Account is to show the results of transactions relating to the purchases and sales of merchandise. As explained in § 39 on page 22, one account may be kept with Merchandise or separate accounts with Purchases and Sales; the debits and credits below relate to the one account.

Debit the Merchandise Account:

¶ 1. For merchandise on hand at the beginning of the business.

¶ 2. For the invoice cost of merchandise purchased.

¶ 3. For freight, drayage, express and postage on merchandise purchased.

¶ 4. For credits allowed for discount, merchandise returned, damaged goods, or shortages.

Credit the Merchandise Account:

¶ 5. For sales of merchandise either for cash or on account.

¶ 6. For amounts received from insurance companies in payment for damage to merchandise.

¶ 7. For rebates allowed by creditors for discount, merchandise returned, damaged goods or shortages.

¶ 8. *The Difference Between the Two Sides of this Account* will show the profit or loss on merchandise, if all the merchandise has been sold. If any part of the merchandise remains unsold, its value is considered in ascertaining the profit or loss. It is necessary to analyze the account to ascertain the facts to be shown on the Profit and Loss statement.

¶ 9. *To Close the Merchandise Account.* This account is not closed until the end of the fiscal period. If there is an inventory, the amount of this is entered on the credit side. After this is entered, the balance of the account is entered on the smaller side and transferred to the opposite side of the Profit and Loss account. The account is then ruled and footed as in Illustration No. 102. This illustration shows the Merchandise account closed with an inventory; the closing without an inventory would omit the red ink entry on the credit side.

Exercise in the Merchandise Account. Prepare on ledger paper a Merchandise account for the following exercise, which is the same as Illustration No. 102:

Oct. 2. Merchandise on hand as per inventory, $165.50 (§ 230, ¶ 1).
3. Bought merchandise on account, $214.78 (§ 230, ¶ 2).
4. Cash sales of merchandise, $105.00 (§ 230, ¶ 5).
5. Sold merchandise on account, $375.00 (§ 230, ¶ 5).
6. Paid freight on merchandise purchased, $150.00 (§ 230, ¶ 3).
8. We returned merchandise for credit, $75.00 (§ 230, ¶ 7).
10. Cash sales of merchandise, $175.00 (§ 230, ¶ 5).
11. Bought merchandise on account, $395.47.
15. Bought merchandise for cash, $247.50 (§ 230, ¶ 2).
16. Cash sales of merchandise, $85.50.
17. A customer returned merchandise for credit, $86.25 (§ 230, ¶4).
20. Cash sales of merchandise, $439.60.
22. Sold merchandise on account, $515.00.
23. Bought merchandise for cash, $257.50.
24. Received check for $178.00 from the Insurance Company for merchandise damaged by fire (§ 230, ¶ 6).
27. Returned merchandise for credit, $112.50 (§ 230, ¶ 7).
29. Bought merchandise on account, $565.90.
31. Inventory, value of merchandise on hand, $513.97 (§ 230, ¶ 9).

Close the Merchandise account as in Illustration No. 102 and present for approval.

Additional practice in constructing the Merchandise account may be obtained by recording the transactions for Exercises Nos. 14, 15 on page 25, and Exercises Nos. 62 and 63 on pages 118 and 119 in one Merchandise account. This not only provides practice in the Merchandise account, but also gives the comparison between the one account and separate accounts with Purchases, Freight In, Sales, Sales Rebates and Allowances, Inventory, Purchases Discount and Sales Discount.

CLOSING THE LEDGER WITH ONE MERCHANDISE ACCOUNT.

§ 231. The Process of Closing the Ledger when the results of transactions with purchases and sales of merchandise are shown in one Merchandise account is the same as when separate accounts are kept with Purchases and Sales, except the closing of the Merchandise account which is illustrated and explained below:

Merchandise

19					19				
Oct.	2		1	163 50	Oct	4		1	105
	3		1	214 78		9		1	375
	6		1	150		8		2	75
	11		2	395 47		10		2	175
	15		2	247 50		16		2	85 50
	17		2	86 25		20		3	439 60
	23		3	257 50		22		3	515
	29		4	565 90		24		3	178
	31	Profit & Loss	5	491 67		27		4	1125 50
				2574 57		31	Inventory		513 97
									2574 57
Nov	1	Inventory	✓	513 97					

Explanation: The inventory is entered on the credit side under date of closing and the word "Inventory" written in the explanation column. The balance (gross profit or gross loss on sales) is entered on the smaller side and on the opposite side of the Profit and Loss account under date of closing. The account is then footed and ruled, and the inventory carried down on the debit side below the ruling, under date of the next business day.

Expense

19					19				
Oct.	4		1	50	Oct	31	Profit & Loss	5	100
	30		4	50					
				100					100

Profit and Loss

19					19				
Oct	31	Expense	4	100	Oct	31	Merchandise	3	491 67
		C. M. A. Capital	1	391 67					
				491 67					491 67

C. M. Anderson, Capital

19					19				
Oct	31	Present Capital	✓	1891 67	Oct	1		1	1500
						31	Profit & Loss	5	391 67
				1891 67					1891 67
					Nov	1	Present Capital	✓	1891 67

Illustration No. 102, Ledger Closed with one Merchandise Account.

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